

School, early years and 14-16 funding consultation

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EXECUTIVE SUMMARY

The proposals in this document continue the reform programme for the school funding system that we started in the 2005 consultation. That led to the establishment of a new funding system for schools, based on the Dedicated Schools Grant (DSG), and the first multi-year budgets for schools, to cover the period 2006-08.

We propose to make it easier for local authorities and Schools Forums to approve contributions from the centrally retained Schools Budget to local authority combined services budgets in support of ECM outcomes.

The distribution of resources between local authorities is a key part of this consultation. We propose a choice of distribution method between:

- a continuation of the current “spend plus” approach, in which all authorities get a basic per pupil increase, with funding for Ministerial priorities added on top; and
- a return to the formula used to distribute Schools Formula Spending Shares in 2005-06, but with updated data on deprivation and area costs.

We are also seeking views on a number of detailed aspects of the formula for distributing DSG under either of these methods:

- how we can best reflect deprivation;
- whether DSG should be based on the number of pupils in January, as now, or whether a count taken in the previous autumn would be better;
- how we can best fund early years, and specialised diplomas for 14-16 year olds; and
- what is the best way of transferring funding for academies from DSG.

We propose that the existing framework for multi-year school budgets should continue for the coming CSR period, 2008-11. Within this framework, there are proposals for a number of incremental changes to the way in which schools receive funding from their local authorities:

- a radical simplification of the Central Expenditure Limit;
- further action to ensure that the deprivation funding distributed to local authorities through DSG is properly reflected in their local funding formulae;
- a continuation of the Minimum Funding Guarantee, with scope for efficiencies in non-pay items to be taken into account in assessing cost pressures, and hence the level of the MFG across the CSR period,

possibly coupled with a simple reduction in the MFG below cost pressures;

- increased discretion for local authorities in handling anomalies in the MFG;
- action to reduce the level of school balances, in part through a levy on excessive balances to be redistributed within local authorities; and
- expansion of the definition of “schools members” of Schools Forums and options for increasing the non-schools membership of Schools Forums, particularly in relation to early years practitioners and members of 14-19 partnerships.

To reflect the variable roll out of 14-19 specialised diplomas across the period 2008-11, we propose that local authorities should be funded through a specific grant for the additional costs for 14-16 year olds taking up this provision, rather than through DSG. We propose three options for delivering this funding to providers of specialised diplomas:

- hold all the funding centrally, including a contribution from the AWPUs of those schools with 14-16 year olds taking up the provision;
- hold the specific grant funding centrally, and schools with 14-16 year olds taking up the provision would make a contribution from their delegated budgets; or
- delegation of all the funding to schools who would meet the whole cost of provision from their delegated budgets.

We propose that the LSC’s new funding methodology for 16-18 provision should be used as the basis for agreeing the cost of partnership provision, with a breakdown into a basic national rate, plus separate uplifts for area costs and deprivation, which would allow for local circumstances to be taken into account.

As we move towards the expansion of the early years offer from 12.5 to 15 hours, we need to work with local authorities to improve the commissioning of provision. We propose the following menu of changes to facilitate this:

- a standard process for setting per pupil funding levels in PVI and maintained settings and consistent pupil counting methods for early years provision across both sectors;
- extending the budget stability currently enjoyed by maintained settings to the PVI funding system;
- a single early years funding formula in each local authority, where we are seeking views as to the timescale over which this would be practical; and

- a proposal to separately identify an amount of early years funding for each local authority.

Finally, we propose to simplify the current structure of specific grants by:

- merging School Standards Grant (SSG) and SSG (Personalisation) into a single grant; and
- giving local authorities more discretion over the distribution of School Development Grant, so that they can move away from the historical distribution towards one that better reflects a local view of need, while ensuring that the strong deprivation focus of the grant is retained.

These proposals are expanded in the chapters that follow. We are grateful to our national education partners, including the representatives of headteachers, governors and local authorities who are members of the School Funding Implementation Group (SFIG), for their work with us and their guidance as we developed these proposals, and also to the many members of Schools Forums who attended conferences during autumn 2006, providing valuable feedback as we developed the proposals.

The consultation will last for 12 weeks from 7th March 2007, ending on 1st June 2007. During this period we will be continuing with some more detailed technical work with external partners, through a technical sub-group of the School Funding Implementation Group. An analysis of the responses to this consultation will be placed on the DfES website and on Teachernet (at www.teachernet.gov.uk/management/schoolfunding/) during summer 2007. Ministers expect to announce final decisions over the summer, in the light of responses to the consultation.

CHAPTER 1: INTRODUCTION AND BACKGROUND

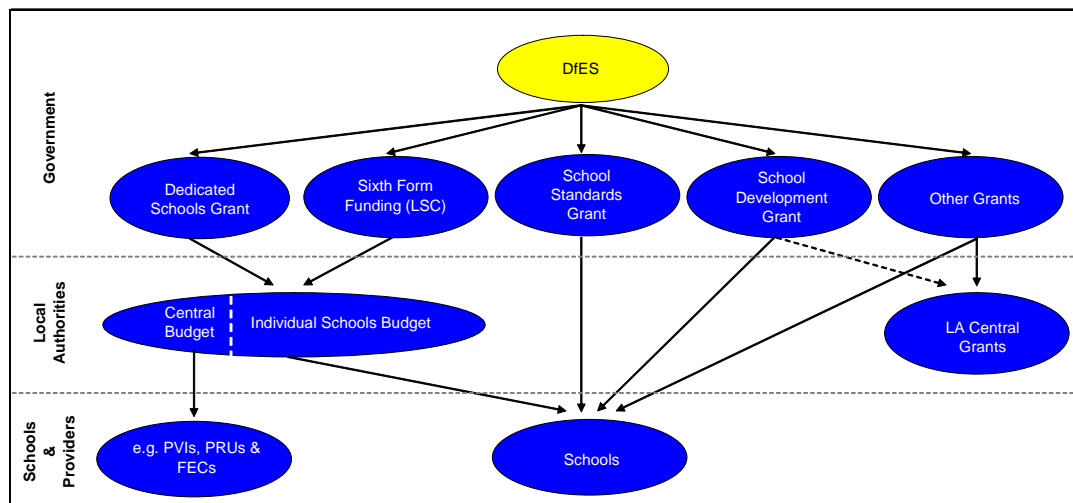
1. This chapter sets out the background and policy context to the proposals for school funding for the period 2008-11. It starts with a brief description of the main funding streams in the current school funding system, and the amounts of funding distributed. It then goes on to discuss:

- recent developments in the school funding system, the principles underlying the review and some of the tensions between them;
- the policies and programmes in the five year strategy which the school funding system must support; and
- the implications of the likely outcome of CSR 2007 for the proposals in this document.

Current School Funding System

2. The diagram below shows the five main funding streams for schools.
- a. Dedicated Schools Grant (DSG) - £28.1 billion in 2007-08. This is the main funding stream for schools. It is paid from the DfES to local authorities and forms the basis of each local authority's Schools Budget. Each local authority is responsible, with its Schools Forum, for deciding how its Schools Budget is split between funding for schools and other centrally funded provision (eg funding for under 5s in PVI, for pupil referral units, and for some high cost SEN) and how the Individual Schools Budget is to be distributed between schools.
 - b. Sixth Form Funding - £2.05 billion in 2007-08. This is paid by the Department to the Learning and Skills Council (LSC), who distribute it to schools with sixth forms through a national formula. The grant is paid via local authorities, and is part of each local authority's Schools Budget.
 - c. School Standards Grant (SSG and SSG (P)) - £1.06 billion and £0.37 billion in 2007-08. These grants are paid to schools on formulae determined by the Department.
 - d. School Development Grant - £1.45 billion in 2007-08. This is paid by the Department to local authorities, who distribute it to schools mainly on the basis of the allocation from the previous year, increased by the level of the Minimum Funding Guarantee. Local authorities are also allowed to retain centrally the same amount of this grant in cash terms in 2007-08 as they did in 2006-07.
 - e. Other Grants - £0.86 billion in 2007-08. These are targeted grants – for example Ethnic Minority Achievement Grant, and Local Authority Grants – for example Music Services Grant.

Diagram 1: Main School Funding Streams in 2007-08



3. The proposals in this document will have an impact on all of these funding streams, except for sixth form funding. That is the subject of a separate consultation: "Delivering World-class Skills in a Demand-led System"¹, which commenced on 5th January and ends on 30th March 2007.

Recent Developments and the Review of School Funding

4. The changes to school funding which were implemented for the two year period 2006-08 had their origin in the Five Year Strategy for Children and Learners published in July 2004: it promised schools multi-year budgets and greater freedom over how they can spend their standards related grants. These changes were a continuation of the two year package of proposals for 2004-06, which put stability and predictability at the heart of policy on school funding. Over 2006-08, there were per pupil increases in Dedicated Schools Grant of 6.8% and 6.7% nationally, and significant increases in Schools Standards Grant.

5. The Government announced the new recurrent funding arrangements for schools on 21st July 2005. The announcement made it clear that these first two years of the new arrangements (2006-08) would be transitional, and that the system would be reviewed before the next multi-year settlement for schools was made, which would cover the period 2008-11.

6. The Government published terms of reference for the review on 6 April 2006². These set out that the review would look at how key aspects of the new funding arrangements for schools were working; would make recommendations on any changes needed to those arrangements in the light of experience; and would consider what further developments in the school funding system would be needed to support the government's wider policies for schools and children's services.

¹ See www.dfes.gov.uk/consultations/conDetails.cfm?consultationId=1454

² See www.teachernet.gov.uk/management/schoolfunding/schoolfundingreview200607/schfundreview200607tors/

7. Local authorities, Schools Forums and other education partners were invited to comment on the issues to be covered in the first phase of the review by 31 May 2006. A report on these responses was published on TeacherNet in August 2006³. Respondents generally welcomed the review and the opportunity to comment on the terms of reference and the key issues. Many commented on the objectives for the review, although no clear consensus emerged.

8. The terms of reference set out five objectives for the review:

- **Simplicity** – school funding arrangements should be transparent and easy for schools to understand, with the number of separate funding streams kept to a minimum;
- **Flexibility** – school funding arrangements should deliver sufficient flexibility to respond to national, local and school level priorities;
- **Stability** – school funding arrangements should provide schools with stability, with certainty over long term forward budgets and transitional arrangements to ensure that any distributional changes remain manageable at school level;
- **Equity** – school funding arrangements should deliver resources in line with need, recognising the different costs of educating particular groups of pupils (eg those from more deprived backgrounds) and of providing schooling in different areas; and
- **Value for money** (vfm) – school funding arrangements should deliver funding in a way that enables schools and local authorities to make the best use of available resources to raise standards in every area. There is a discussion of the steps that schools can take to achieve better vfm in chapter 3, paragraph 127.

9. The terms of reference recognised that there were tensions between the objectives, and that any package of proposals for 2008-11 would need to strike a balance between them. Some examples are:

- the follow up to the HMT/DfES review of deprivation funding is aimed at achieving greater **equity** in school funding – but achieving that quickly could put at risk the objective of **stability**;
- the Minimum Funding Guarantee is the key guarantor of **stability** but it restricts the **flexibility** with which local authorities can respond to local changes in need and circumstances, as the characteristics of school intakes change over time; and
- merging the School Development Grant and School Standards Grant would mean greater **simplicity**, but unless any changes in distribution were damped, that could put at risk the **stability** of the funding system.

³ See www.teachernet.gov.uk/docbank/index.cfm?id=9684

10. As the Department has worked through the options for change, with our external partners' group (SFIG, the School Funding Implementation Group) and through conferences with stakeholders, a number have stressed the importance of the difference between: stability of funding - schools are guaranteed a year on year increase, so that they can continue to make the same provision from one year to the next; and predictability of funding – schools know what their funding is for future years with a good degree of certainty, so that they can plan ahead, but they may receive lower increases than previously.

The Progress Report on the Five Year Strategy

11. The need to balance the tensions discussed above will condition the pace of reform of the school funding system over the period 2008-11. So too will a number of the policies and programmes set out in the recently published progress report on the Department's five year strategy⁴.

- The commitment to extend the free offer for early years education and childcare from 12.5 to 15 hours for all children, with an increase in the flexibility of the offer.
- Children's Trusts to bring together all those who provide services for children and families in each local area to improve the quality and flexibility of provision.
- Every primary and secondary school to provide access to a range of "dawn to dusk" extended services by September 2010.
- An additional £500 million in 2006-07 to support the development of personalised learning, which will be increased by a further £490 million for 2007-08. Christine Gilbert was asked to lead an expert team to look further ahead at teaching and learning in 2020. The review was published in December 2006, and set out recommendations for best use of resources for personalisation⁵.
- The introduction of three year budgets for schools from 2008.
- 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.
- The introduction of 14 specialised diplomas, with the first 5 to start in September 2008, all 14 available by 2010, and an entitlement for every young person to have access to any of the 14 diplomas by 2013.
- The target of 200 academies to be open or in the pipeline by 2010, with a longer term aim of 400.

The implications of some of these policies for school funding are explored throughout chapters 2 to 5 of this document.

⁴ The Five Year Strategy for Children and Learners: Maintaining the Excellent Progress

⁵ See www.teachernet.gov.uk/docbank/index.cfm?id=10783

School Funding across the CSR 2007 Period

12. Any package of reforms to the school funding system for the period 2008-11 is not an end in itself: it must support learners, schools, local authorities, and other stakeholders as they implement the programme set out in the five year strategy. It must support the delivery of better outcomes for learners, and help to achieve value for money. Finally, it must also take full account of the increases in school funding that will result from the CSR 2007 outcome.

13. The Government's view is that stability of funding for schools will remain an important consideration over the period 2008-11, and that a continuation of the Minimum Funding Guarantee would support stability. If we continue to have an MFG, authorities would continue to need an increase in their Dedicated Schools Grant (DSG) allocations that allows for a margin over and above the level of the MFG to implement it (1% is the historical level, and there is more discussion in paragraphs 120 to 122 on this issue, and whether there is scope to reduce this margin). We also anticipate that an assessment of cost pressures will continue to play an important part in setting the level of the MFG.

14. If the operation of the MFG, and the way it is set in relation to cost pressures remains unchanged, its implementation at the local level will use up a significant proportion of the increase in funding for schools across the CSR period, as it has done since its introduction in 2004-05. We should consider, when looking at average cost pressures, the scope for achieving better value for money from the 20% of the resources that schools spend on non-pay items: that could lead to a lower level of MFG across the CSR period. We should also consider whether the level of the MFG across the period 2008-11 could be set lower than average cost pressures. Both of these changes are desirable in their own right: they would free up resources to deliver new priorities and better reflect deprivation; and they will help to improve outcomes for the learner and to achieve better value for money.

15. They are also important when set against the outlook for the coming CSR period. The increases in school funding set out in paragraph 4 above have continued the pattern of real terms increases that schools have enjoyed since 1997. The Chancellor has made clear the government's continuing commitment to improving the educational opportunities of all our pupils, with schools funding continuing to grow in real terms - although at lower rates than those seen in recent years.

16. In summary, we need to examine the scope for reform of the MFG to make the best use of the resources that will be available across the coming CSR period. There is further detailed consideration of the operation of the MFG, and its level across the CSR period in chapter 3.

CHAPTER 2: THE DISTRIBUTION OF DSG TO LOCAL AUTHORITIES

This chapter discusses how the Dedicated Schools Grant (DSG) should be distributed from the DfES to local authorities. It starts by considering, in the light of the development of the Every Child Matters agenda, how the DSG can be used to facilitate joint working in support of the five outcomes. It seeks views on: whether to continue with the current spend plus approach, or use a single formula for distribution of Dedicated Schools Grant; how funding for children under 5 should be distributed; how academies should be funded from DSG; how best to reflect deprivation in the DSG allocations; and on the benefits to local authorities of moving the DSG count from January to autumn. Finally, it discusses a grant that could be paid in exceptional circumstances alongside DSG, to reflect significant changes in need that occur after a three year settlement has been made.

DSG and Every Child Matters

17. The current arrangements governing the use of DSG were established in 2005, and cover the years 2006-08: in simple terms, local authorities are required to apply their DSG in full to their Schools Budget, and may not use it to fund other local authority services.

18. At the same time Ministers fully recognised the vital role that schools, and educational provision outside schools, have to play in the Every Child Matters (ECM) agenda. That is why, when the DSG was introduced, they decided that local authorities should be able to combine some of the funding from the centrally retained part of their Schools Budget with funding from other relevant local authority budgets, to support the delivery of ECM outcomes.

19. Local authorities must secure the approval of their Schools Forum to any use of DSG in a combined services budget, and they must demonstrate that the proposed service fulfils two criteria:

- the 'educational benefit test' – that the service being proposed should bring educational benefit to pupils in the authority; and
- the 'proportionality test' - that the contribution from the Schools Budget to the service should be roughly equivalent to the educational benefit that would be derived.

20. A number of stakeholders have commented that these arrangements do not provide them with sufficient flexibility to fund services in support of the ECM agenda. A particular concern is that the proportionality test is difficult to apply in practice, and that auditors may subsequently take a different view to local authorities and their Schools Forums, which could lead to contributions from DSG having to be repaid from other council resources. This may explain the relatively low numbers of local authorities using the provision: section 52

returns for 2006-07 show that only 24 local authorities have reported a contribution from their centrally retained schools budget to a combined services budget.

21. The original aim of this policy was to enable Children's Trusts to work across service boundaries to put in place creative and effective arrangements that support the educational achievement of children and young people in their area. This power should create synergy between services previously working in parallel, to enable new ways of working that offer greater efficiency and better value for money – it should promote and enable additional activity or better outcomes from existing activities because they are more joined up.

22. The current arrangements seem to be inhibiting local authorities from achieving these aims. We therefore propose that they should be revised by removing the 'proportionality test'. Alongside this change, we will make available guidance to local authorities and Schools Forums on the contribution of the full range of ECM outcomes to support educational achievement (the 'educational benefit test') and set out examples of good practice.

23. There will be no change to the role of Schools Forums in this area: they will retain a strong and well-informed role in agreeing appropriate contributions from the Schools Budget to combined service budgets. This is essential to test the value for money offered by proposals, and to provide a valuable forum for discussion between schools and the local authority about local arrangements to deliver ECM.

Q1: Do you agree that the 'proportionality test' should be removed from the criteria used by local authorities and Schools Forums to decide whether there should be a contribution from the centrally retained Schools Budget to local authority combined services budgets in support of ECM outcomes?

Spend plus and Single Formula

24. For 2006-08, DSG was allocated on the basis of what we now call the spend plus methodology. This works as follows⁶:

- a. a baseline was established for each authority, based on their Schools Budget for 2005-06;
- b. all authorities received the same 5% minimum increase per pupil as an addition to this baseline; and
- c. the remaining funding in the overall DSG envelope was then distributed according to other formula based criteria, to reflect Ministerial priorities for the period 2006-08.

25. The Ministerial priorities were, with funding allocated to them: personalisation in primary schools (£230m); personalisation at Key Stage 3

⁶ See www.teachernet.gov.uk/docbank/index.cfm?id=9405 for a detailed account of the calculation methodology for DSG.

(£335m); more practical learning options at Key Stage 4 (£110m); the final phase of workforce reform in primary schools (£70m); and early years expansion (£82m). In addition £60 million was allocated to authorities who spent below Schools Formula Spending Share in 2005-06.

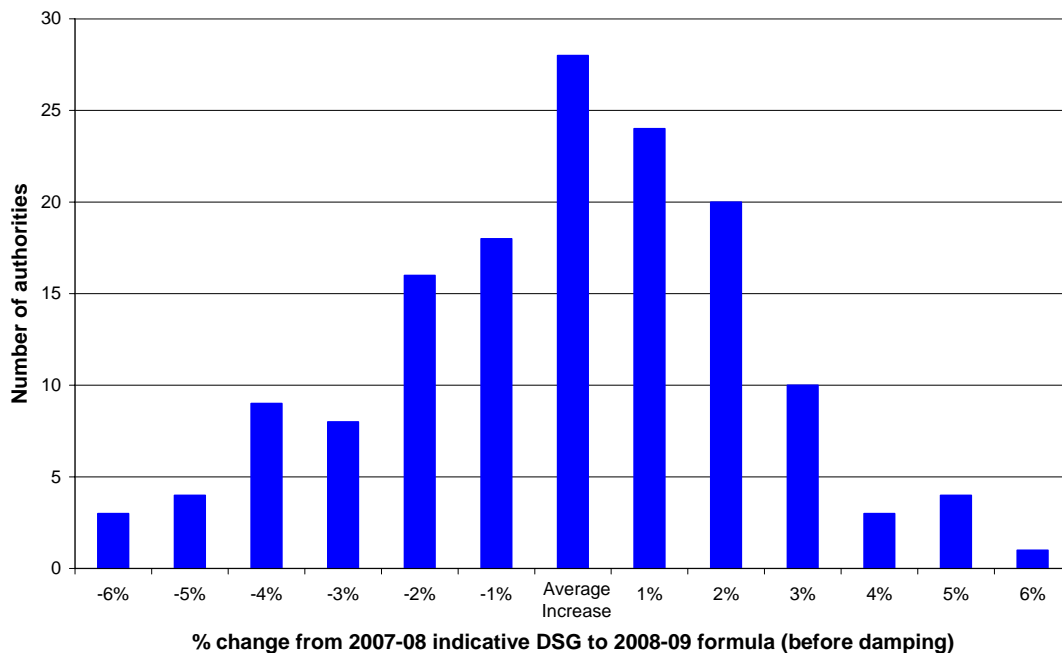
26. The spend plus approach was originally intended as a transitional approach for 2006-08, to smooth the introduction of the DSG for those authorities which spent significantly over their Schools Formula Spending Share (SFSS) in 2005-06 – it consolidated that spend over SFSS into their baseline. Moving directly to a single formula for DSG would have meant that many of those authorities would have received a minimum increase in DSG for the period 2006-08, and would have seen their additional spending above Schools FSS eroded over the years. This remains an issue if we decided to distribute Dedicated Schools Grant on the basis of a single formula from 2008-09.

27. For the period 2008-11 we need to consider again the balance of arguments between the spend plus and single formula approach, in the context of what is likely to be a lower settlement than that for 2006-08, and against a background of the policy developments in early years, extended schools and 14-19 as set out in chapter 1. We also need to consider how any transition would be managed – and that in turn highlights some important issues for the way forward. The following sections discuss these options in detail.

Transition to a single formula

28. If a single formula approach were adopted for 2008-11 there would be some local authorities whose current allocation of Dedicated Schools Grant would be some way in excess of their allocation as determined by the new formula. The diagram below demonstrates what could happen in 2008-09 if we reverted to a single distribution formula based on the Schools Formula Spending Share (FSS) formula: in the absence of any damping, there would be a range of increases from at least +6% to -6% about the average increase.

Diagram 2: Transition from spend plus to formula – changes in funding level



29. The range is heavily influenced by the amount by which local authorities spent above or below Schools FSS in 2005-06, but it also depends to an extent on the distribution of funding through Ministerial priorities in 2006-07 and 2007-08. It does not take account of data changes as discussed in paragraph 32 below or any other policy changes for the period 2008-11.

30. The aim of reintroducing a single formula would be to move all authorities towards it over time. Authorities whose DSG allocations are above their allocations under a single formula would need to be protected from immediate loss by a system of floors and ceilings. The system used to smooth the introduction of schools FSS in 2003-04 could be used to manage the transition from the 2007-08 distribution of DSG to a distribution for 2008-09 based on a single formula. This could work as follows:

- a. A baseline per pupil for 2007-08 would be calculated. If we did not merge any grants into DSG for 2008-09, this baseline per pupil would be each authority's DSG guaranteed unit of funding per pupil for 2007-08. If we merged any grants into DSG, the baseline would be each authority's final DSG allocation, plus their allocations of grant to be merged into DSG, divided by January 2007 pupil numbers.
- b. Each authority would receive on top of their baseline a minimum increase per pupil at the level of the MFG plus headroom. We would at the same time set a maximum or ceiling increase in funding per pupil.
- c. The DSG allocation from the single formula would then be compared with these numbers. If the single formula allocation is

lower than the floor, then the authority would receive the minimum increase calculated as in b. above. If the single formula allocation is between the allocations implied by the minimum and maximum increases, the authority would receive its formula allocation. If the single formula allocation is higher than the amount implied by the ceiling increase, then the authority would receive the ceiling increase.

- d. Finally, Dedicated Schools Grant allocations would be calculated for three years using projected pupil numbers. We would then use the current method of calculating guaranteed units of funding, which would then be used with actual pupil numbers to determine an authority's final allocation of DSG for each year.

31. The diagrams below illustrate how floors and ceilings would work: the values of the floor and ceiling (2% and 6%) and the average increase (4%) are purely illustrative. They reflect the fact that: some authorities would receive DSG allocations above their formula allocations (floor authorities); some authorities would receive DSG allocations at their formula allocations; and some authorities would receive DSG allocations below their formula allocations (ceiling authorities).

Diagram 3: Increase in DSG for an authority not at the floor or ceiling

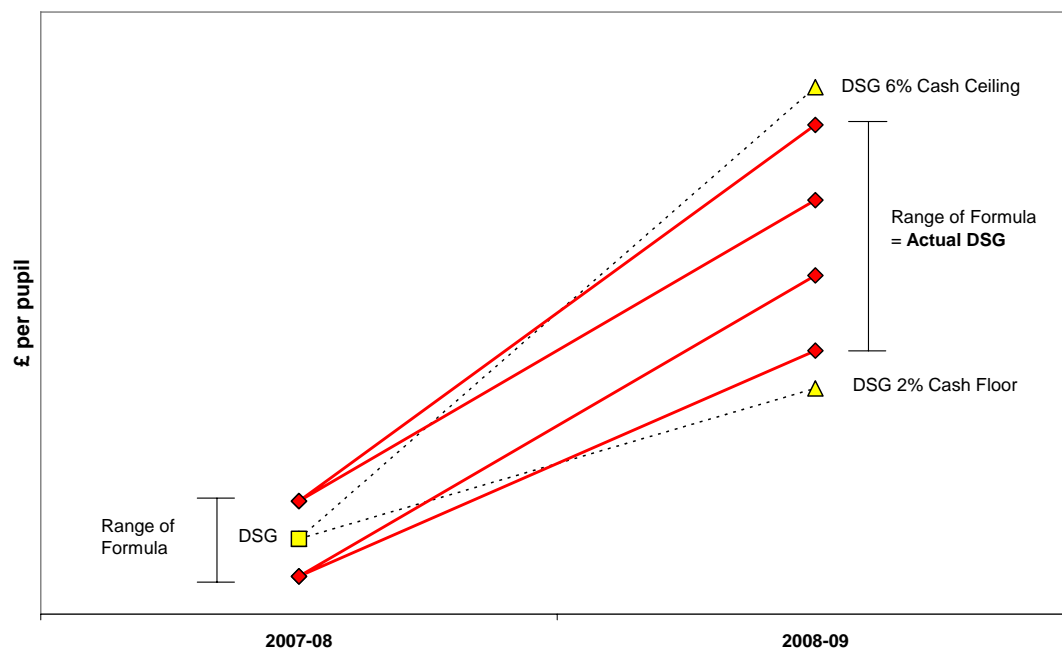


Diagram 4: Increase in DSG for a floor authority

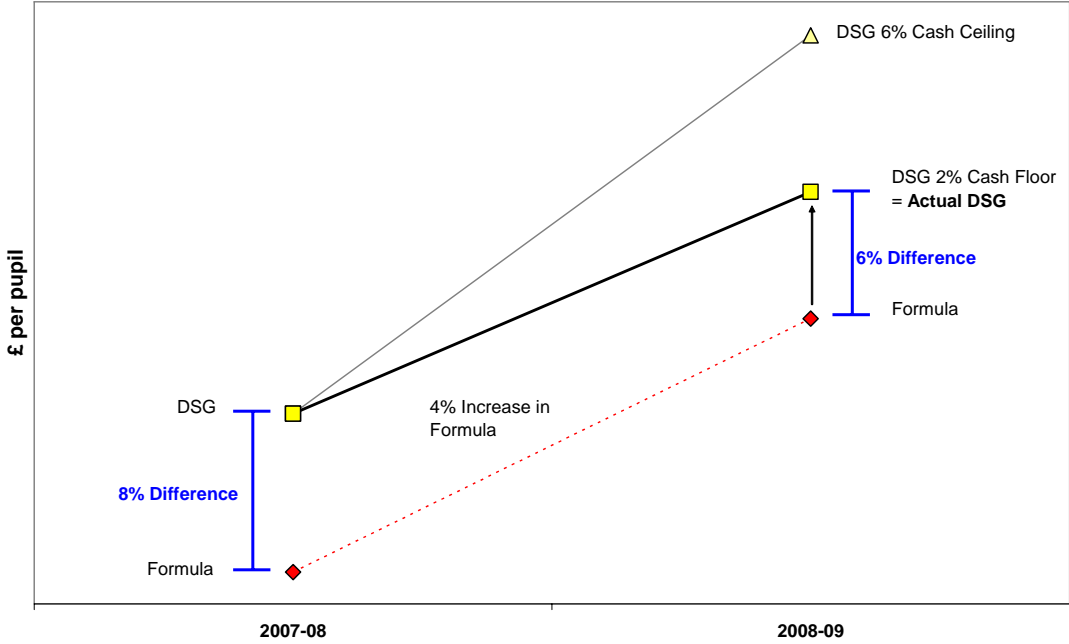
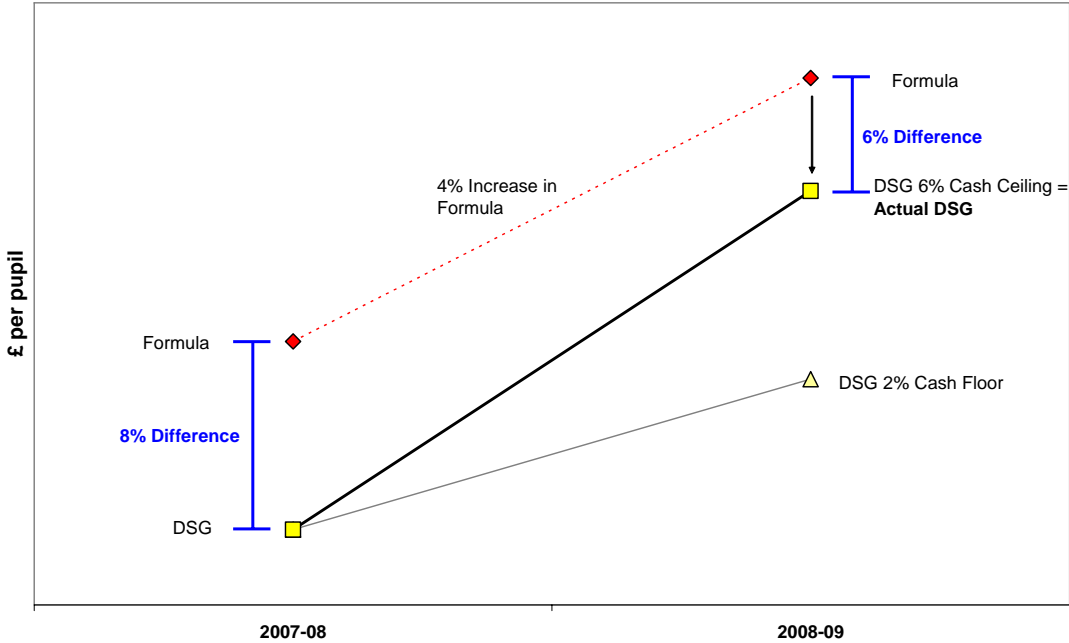


Diagram 5: Increase in DSG for a ceiling authority



32. It is not possible to say how many authorities would fall into each of the three categories above (on the floor, at formula, on the ceiling) but the range of starting points for authorities set out in paragraph 28 above implies that some authorities would be on the floor and receive a minimum increase in DSG for a number of years. This impact could be exacerbated by changes in the data which would feed into the single formula for DSG: revisions to the data used to calculate the Area Cost Adjustment (ACA); any changes to under 5 pupil numbers (as discussed later in this chapter); changes to the levels of

deprivation, and the values of the indicators used as proxy measures for it - measured previously by Income Support and Working Families' Tax Credit; changes to the pattern of English as an Additional Language (which could be quite significant because of recent immigration from the EU); and changes to the pattern of children in low performing ethnic groups and children with low birth weight (likely to be less significant in distributional terms).

33. However, if we wanted to merge specific grants into DSG, the differences between the distribution of specific grants amongst authorities and the single formula DSG distribution would also increase the number of floor and ceiling authorities, and the length of time it would take authorities to converge onto their formula allocations. Since some of the grants within SDG have a very skewed distribution (some authorities get no grant at all under some of the sub components), merging any of them into DSG under a single formula system could cause quite significant turbulence. It would be possible to adjust the weighting given to deprivation indicators within the DSG formula to reflect the deprivation measures in the grants that make up SDG, but not where those indicators are used to determine whether an area receives a grant or not.

Moving Forward under Spend Plus

34. The spend plus methodology would work as follows and this is a continuation of the current methodology:

- a. A baseline per pupil for 2007-08 would be calculated. If we did not merge any grants into DSG for 2008-09, this baseline per pupil would be each authority's DSG guaranteed unit of funding per pupil for 2007-08. If we merged any grants into DSG, the baseline would be each authority's final DSG allocation, plus their allocations of grant to be merged into DSG, divided by January 2007 pupil numbers.
- b. Each authority would receive on top of this a minimum increase per pupil at the level of the MFG plus headroom.
- c. Funding for policy pressures/Ministerial priorities would then be added to this minimum allocation, in the same way as the allocation for Ministerial priorities were added to the basic 5% increases for 2006-07 and 2007-08.

There would be no need to calculate a ceiling increase under spend plus and there would be no additional turbulence at local authority level associated with mainstreaming specific grants. Chapter 6 on specific grants discusses how turbulence at school level could be managed when specific grants are mainstreamed.

35. There are two issues for spend plus in addition to those outlined above for the single formula option:

- a. Firstly, the data changes outlined in paragraph 32 above would

not feed through into DSG allocations calculated using the spend plus approach as they would under a single formula approach. It would be possible to resolve this by means of an allocation that would be additional to the basic increase and the allocations for Ministerial priorities: such an allocation would be driven by a formula that would reflect relative changes in the deprivation indicators discussed in paragraph 32.

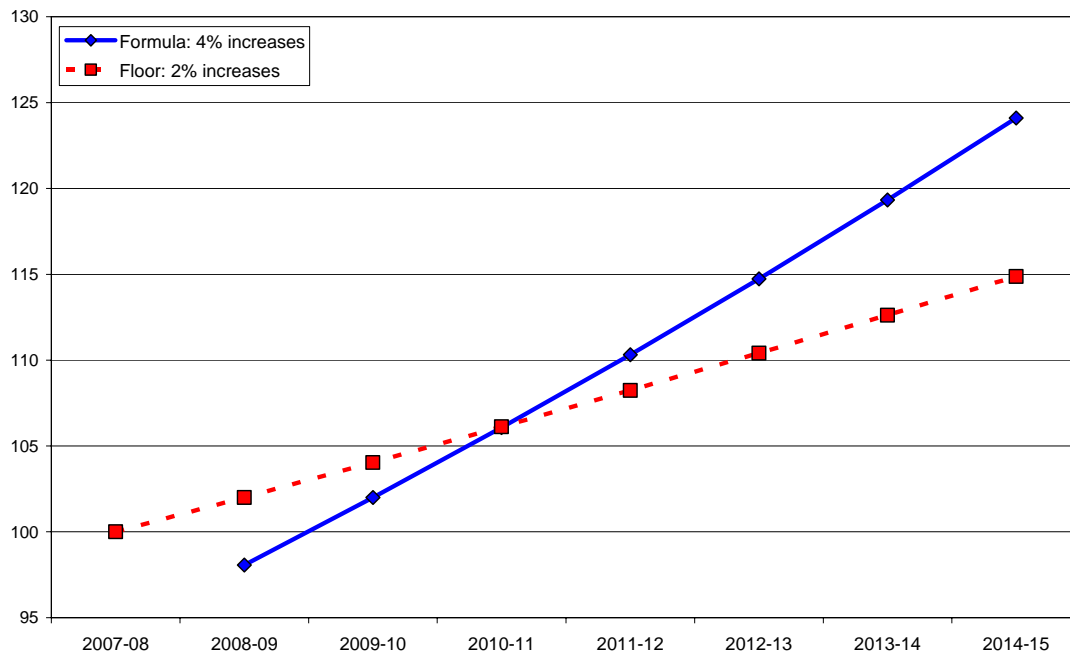
- b. The spend plus approach would mean that those authorities which chose to spend below schools FSS in 2005-06 would not see their DSG allocations converge any further upwards to the Schools FSS formula. Their schools could be said to be disadvantaged by the spend plus approach, a problem which we sought to deal with in 2006-07 and 2007-08 by the allocation of £30 million in each year to such authorities, to halve the gap between their spend in 2005-06 and their schools FSS in that year. We might complete this process for 2008-09 and 2009-10 by allocating a further sum in each year to bridge the remaining gap.

Impact of the CSR Settlement

36. The outcome of the CSR will be another critical determinant of decisions in this area. A lower settlement than in previous years will make for relatively slow progress from the 2007-08 DSG distribution towards a distribution based on a single formula.

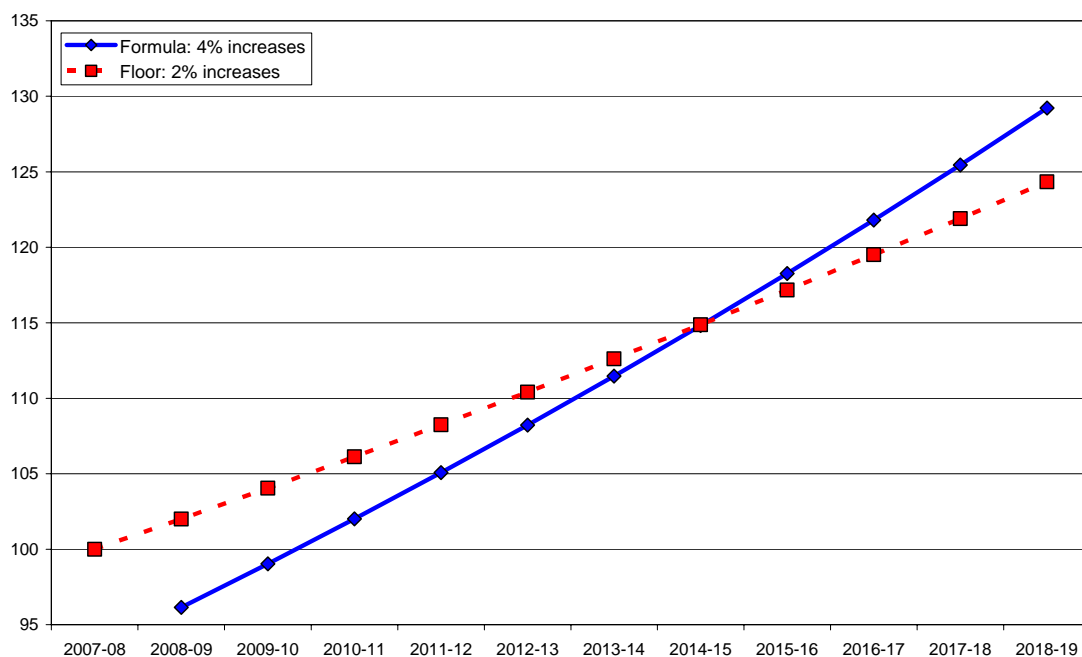
37. The diagrams below set out what progress would be possible under a couple of scenarios: both start from a position in 2007-08 in which the authority's allocation of DSG is £100 million; the difference between 2007-08 DSG allocations and the 2008-09 formula is 4% (approximately 1 in 10 authorities could be in this position - see Diagram 2); the DSG floor is set at 2% (illustrative, see Diagram 4); the average per pupil increase is 3% and 4% under the two scenarios (convergence of 2% and 1%). The numbers used in these examples are illustrative only – and the critical factor is not the average level of increase, but the gap between the average increase and the floor increase.

Diagram 6: Convergence to formula from spend plus, 2% per year



38. In diagram 6 the gap between the authority's actual and formula allocation of DSG closes at the rate of 2% per year, ie the average increase is 2% above the floor. In 2008-09 the gap is 6%; in 2009-10 4%; and in 2010-11 the gap is 2%. From 2011-12, the authority would simply receive the allocation indicated by the formula.

Diagram 7: Convergence to formula from spend plus, 1% per year



39. In diagram 7 the gap between the authority's actual and formula allocation of DSG closes at the rate of 1% per year, ie the average increase is

1% above the floor. In 2008-09 the gap is 6%; in 2009-10 5%; and in 2010-11 the gap is 4%; and so on. In this scenario it would take 7 years before the authority receives the allocation indicated by the formula.

Summary of Spend Plus and Single Formula

40. Diagram 8 below compares the building blocks that make up the spend plus and single formula methodologies. The fundamental difference between the two approaches lies in how funding above that needed to deliver the MFG is distributed:

- a. in the formula approach, funding above the minimum is used to make progress towards the ultimate destination which is a distribution based on the formula; while
- b. under spend plus, funding above the minimum is allocated according to different formulae designed to reflect the Ministerial policy priorities.

Diagram 8: National level building blocks - formula and spend plus approaches

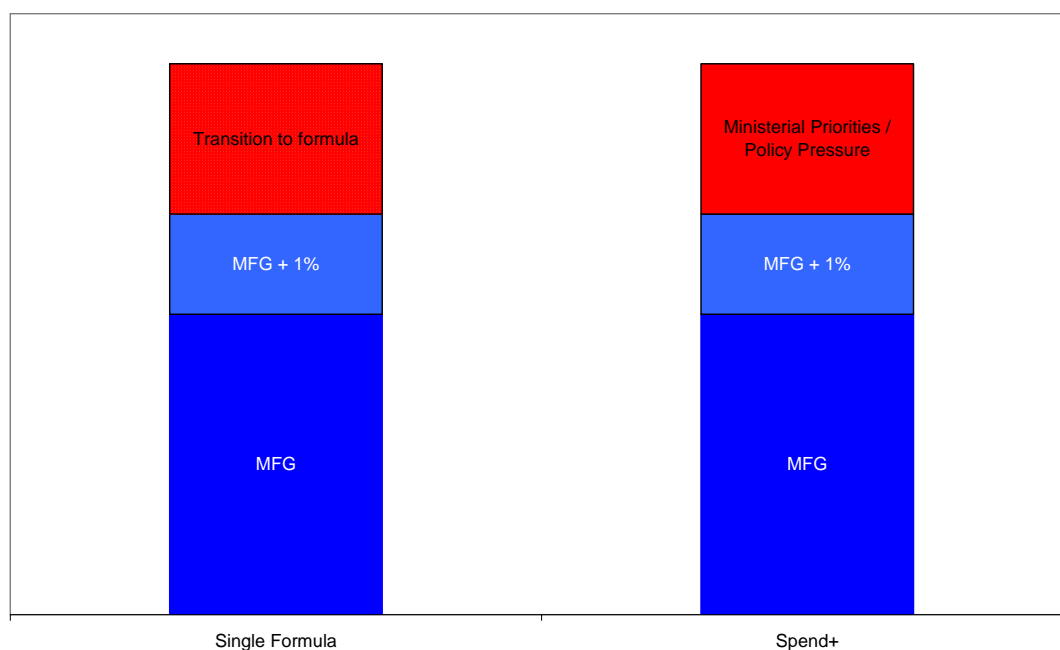
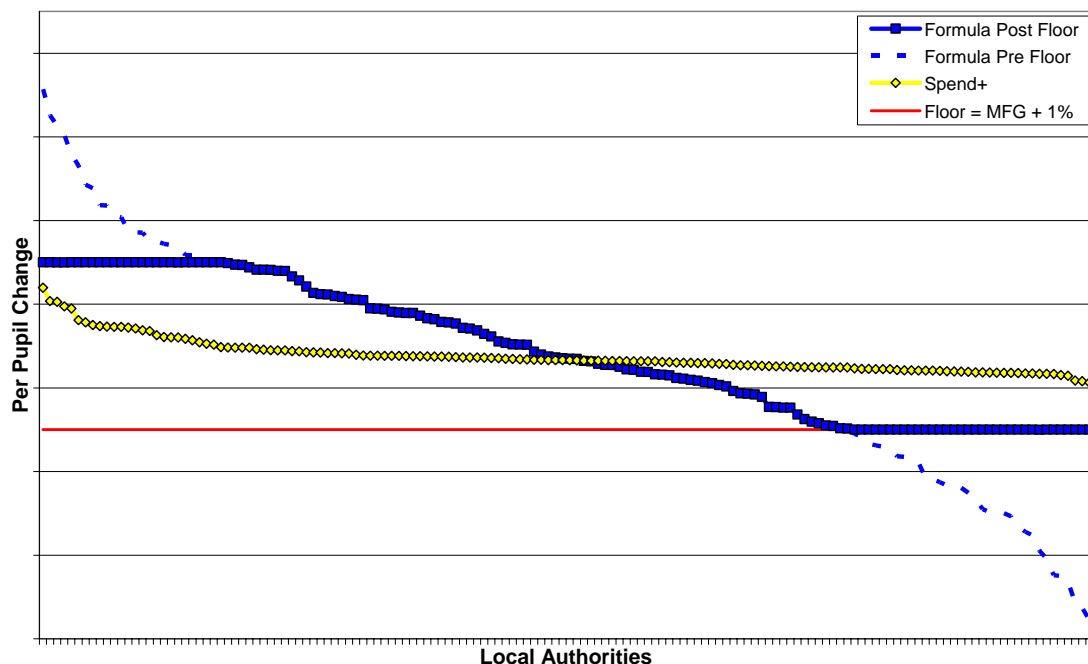


Diagram 9 shows how the distributions could vary under the two methods: it is based on the per pupil increases from 2007-08 DSG allocations.

Diagram 9: Illustrative local authority distributions under formula and spend plus



41. The principal advantages and disadvantages of the two methods are therefore:
- a. The spend plus method is good for the stability of school funding; it reflects the current reality of funding levels in different authorities; and it allows Ministers to earmark funding for particular issues in each year of a spending reviews period, including funding for deprivation. It also allows specific grants to be mainstreamed more easily. However, its distribution becomes progressively more difficult to explain and justify – there is no clear, single formula.
 - b. The single formula method is good for explaining any given distribution of DSG – it allows for a clearer explanation of the level of funding for any given authority than the spend plus method, and identification of funding for deprivation is more transparent. However, it makes it more difficult to mainstream specific grants, and it would require a transitional period from the current DSG distribution which could last for a number of years. Earmarking of funding for particular policies is not possible.

Q2: Which method of distribution would you prefer for the period 2008-11: spend plus or single formula?

Moving to an Autumn Pupil Count to Allocate DSG

42. Before the introduction of the DSG, the calculation of Schools FSS was

based on a mixture of pupil counts: the previous January for under 5s and primary; and a September pupil count for secondary (so the 2005-06 SFSS allocations were based on January 2004 and September 2004 pupil numbers). These counts were chosen because they were the most up to date final pupil numbers available at the time of the Local Government Finance Settlement.

43. When DSG was introduced, we took the opportunity to base allocations of DSG on pupil numbers as at January immediately prior to the start of the financial year. This had three main advantages: the pupil numbers used in DSG allocations would be the most up to date available; each pupil cohort would be counted once; and the same pupil numbers would be used in determining DSG allocations and school budgets.

44. Because these pupil numbers could not be finalised before the start of the financial year, local authorities did not know what their final allocations of DSG were when they set their Schools Budgets, and therefore had to base them on estimates of pupil numbers.

45. Local authorities' experiences of the first year of this system have been mixed: some made fairly accurate assessments of their pupil numbers that required little or no adjustment to their overall Schools Budgets; whereas other authorities over estimated their pupil numbers and faced a shortfall in DSG when their allocation was finalised in June 2006. Of these latter authorities, a number chose to carry the shortfall forward, while others chose to redetermine each of their schools' budgets for 2006-07. Neither option is satisfactory from the point of view of budget predictability for schools.

46. If we used pupil numbers that were finalised before the start of the financial year – eg by early February 2008 for the 2008-09 financial year - local authorities would be able to set their Schools Budgets, and the budgets of each of their schools for 2008-09, secure in the knowledge that their DSG allocation would not change. This would make the process more manageable for local authorities and the outcome much more predictable.

47. The introduction of a termly census for primary schools from autumn 2007 makes it possible to base the DSG allocations for 2008-09 on autumn 2007 pupil numbers in maintained schools⁷. We expect that those pupil numbers would be finalised early in 2008, so that the school funding settlement in late autumn 2007 would still use estimated pupil numbers to set DSG guaranteed units of funding and indicative allocations for 2008-09 to 2010-11. That would give local authorities the same information they have under the current system, and it would allow them to start planning their budgets for 2008-09. However, the Department would then finalise pupil numbers, and DSG allocations, early in 2008, so that when local authorities set their Schools Budgets and individual schools' budgets for 2008-09 in February/March 2008, they would do so from a position in which they were

⁷ Currently, the autumn term data collection takes place in late September. There is a proposal in 'Delivering World Class Skills in a Demand Led System' to move the collection date back into October – one of the aims is to allow schools more time to ensure that data properly reflects the situation in the school. For simplicity this document will refer throughout to the autumn term data collection/pupil numbers rather than to September or October.

certain of their DSG allocation.

48. While moving to an autumn pupil count does offer increased certainty to local authorities as they plan their budgets, there are some other issues which we need to consider.

- a. Moving to autumn pupil numbers would change the number of pupils on which DSG allocations are based – but it would not change the level of provision on the ground or its cost. At national level, autumn secondary pupil numbers are usually slightly higher than the January numbers for the same academic year. While this pattern repeats itself for some authorities, for most local authorities there is no consistent pattern. We do not have comparable data for primary schools, but the broad pattern is likely to be the opposite of that for secondary schools, since most primary schools admit children to reception classes at two (and sometimes three) points during the school year.
- b. We would need to see if any authorities were systematically disadvantaged by the move to the autumn count, with a consequent impact on their DSG allocations. If we found that to be the case, after analysis of autumn 2007 pupil data, we could consider an adjustment to the primary autumn count for DSG.
- c. There are currently no plans to put the Early Years Census onto a termly basis. In order to give authorities finalised DSG allocations in early 2008, we would therefore have to use data from January 2007 for early years numbers in the DSG allocations for 2008-09.
- d. 2007 is the first year of the autumn term primary pupil count, and we do not yet know whether there will be significant teething problems. If that were to lead to delays with final DSG allocations, we could lose the benefit of using autumn pupil numbers in the first year of the new system.

49. Alongside a change to the DSG count from January to autumn, it would make sense to change the main pupil count for school budgets to autumn as well, to retain the alignment between DSG pupil numbers and pupil numbers used to calculate school budgets. Alongside this we would want to change the pupil numbers used to calculate MFG allocations from January to autumn – both for the 2007-08 baseline and for the 2008-09 calculation. We would not expect the move to an autumn count to generate as many anomalies in the MFG calculations as the introduction of the single pupil count: many of those were caused by the phasing out of composite pupil numbers, whereas this change is a move from one single count date to another. We would, as now, allow authorities to make an appropriate adjustment to the pupil numbers used in nursery and primary schools to reflect the pupils admitted in January and April.

Q3: Should we move the pupil number count used for Dedicated

Schools Grant allocations from January back to the preceding autumn?

Under 5 Pupil Numbers

50. Chapter 5 sets out how local authorities can currently distribute funding for early years provision to maintained, private, voluntary and independent providers, and discusses options for change for the period 2008-11. This section discusses the options for changing the way in which under 5 pupil numbers are counted for the purposes of DSG allocation.

51. Currently the free entitlement is for up to 12½ hours per week of nursery education, for 38 weeks per year. The entitlement is available to children from the term after they turn three to the term after their fifth birthday, when they enter full time compulsory education.

52. The ten year childcare strategy made a commitment to increase the length of the free entitlement to 15 hours per week (for 38 weeks per year) and to increase the flexibility of the offer, both through longer sessions and also by spreading the free entitlement across more weeks per year.

53. The current system of counting under 5s for DSG allocation is unchanged from that which was used in the Schools FSS formula. The main features are:

- pupils in maintained and PVI settings are counted in different ways – maintained pupils count as ½ (for 1 to 9 sessions) or 1 (for 10 sessions) full time equivalent (fte), whereas pupils in PVI settings are counted from 0.1 to 1 fte depending on the number of sessions (from 1 to 10); and
- rising three and three year olds are funded for up to 12½ hours, and four year olds are funded for up to 25 hours – the free entitlement is for 12.5 hours for three and four year olds.

Finally, where the participation rate for three year olds is below 90% of population of children resident in the local authority, pupil numbers for DSG are based on an assumed rate of 90%. In 2006-07, 89 LAs benefited from this uplift, at an overall cost of £50m. However, this system has three main problems:

- it is inconsistent between maintained and PVI providers in the way under 5's are counted;
- it provides a disincentive to offer the free entitlement more flexibly (by offering sessions of different length and by spreading the entitlement over more than 38 weeks) – to do so under the current system reduces an authority's DSG allocation; and
- variations in volume of under 5 provision can make local authority allocations of DSG difficult to predict, with an impact on the predictability of school budgets.

54. The timetable for making changes to the Department's data collection arrangements limits the changes we can make for the period 2008-11: the relatively long lead in times for software development mean that it is now too late to make significant changes to the Schools Census for 2008-09 to bring it into line with the early years census. Any options for change for the period 2008-11 will have to use the data that is currently (or planned to be) collected: we cannot introduce changes after the start of a three year budget period.

Enabling Increasing Flexibility in PVI Settings

55. The 2008 early Years census will collect data on the number of funded hours of provision per week in PVI settings. Where local authorities choose to offer the free entitlement through fewer, longer sessions, we will be able to fund them on the basis of the number of hours taken up, rather than the number of sessions.

56. We are also exploring the option of basing funding on the weeks over which the free entitlement is accessed for children in PVI settings (this is not an issue in maintained settings). This would require additional data to reflect the pattern of take up for children by collecting:

- Child level data on the number of weeks over which they access the free entitlement; or
- Provider level data on the number of weeks it offers the free entitlement – and assuming all children attend for all the weeks the provider is open.

57. Child level data will also provide a more accurate picture of actual take-up: we are exploring collecting data on the number of weeks that each child will access the free entitlement in the term of the Early Years Census (EYC) and pro-rating this up based on provider level information. Provider level data would be less burdensome on providers and authorities but would provide a less accurate picture of actual take-up and lead to distributional impacts: children not taking advantage of increased flexibility would be over-funded and children who did take advantage would be under-funded.

Longer term strategy for data collection

58. Over the long term we think the choice for counting under 5s for DSG allocations lies between the two elements that make up the current system:

- a. numbers based on the level of provision offered; or
- b. on a headcount of children under 5.

59. Using headcount would greatly simplify the current system of counting under 5s. It would allow local authorities the freedom to offer the free entitlement over more than 38 weeks or in longer sessions with no adverse impact on their funding. It would mean that funding would be based on a higher number of pupils overall, and there would be some distributional

impacts: in general terms, authorities with many children taking up a small amount of provision would gain; while those with many children taking up the full entitlement would lose out.

60. Using a provision based count would reflect more accurately what is being offered on the ground. Those local authorities with low levels of provision would also receive extra funding as the level of provision increases – which they would not under a headcount method. But it would undoubtedly be more bureaucratic than the simple headcount approach.

61. If we are to move towards a provision based count in the longer term, we need to start planning now. We would need to pilot a revised count in 2009-10, with a full roll out in 2010-11, to allow full modelling of the impact and appropriate transitional arrangements to be put in place for the spending review period which starts from 2011-12. We would therefore welcome views on whether this is an option worth pursuing for the longer term.

Q4: In the long term, which method of counting under 5s would you prefer: headcount or provision based?

Academies Funding and DSG

Current System and Problems

62. There are currently 46 academies open, and current plans are for around 40 to open in September 2007, a total of 200 open or in the pipeline by 2010, and a commitment to open 400 in the longer term. This section discusses options for funding academies through transfers from the DSG. Two key principles underlie the options:

- comparability of funding between academies and the maintained schools in their area should be preserved, where possible; and
- recurrent funding for the maintained schools in local authorities with academies should not be adversely affected by the transfer of funding out of DSG.

63. The current system for funding academies sits alongside that for maintained schools, but has some important differences to it. In outline, the funding system for maintained schools and academies works as follows for any given year:

- local authorities are allocated DSG on the basis of January pupil numbers and their Guaranteed Unit of Funding;
- that DSG is applied to the Schools Budget for an authority, and split between the centrally retained budget and the Individual Schools Budget (ISB);
- the ISB is distributed to schools using January pupil numbers;

- a local authority's DSG allocation is reduced by the number of pupils in a new academy, based on January pupil numbers, multiplied by the Guaranteed Unit of Funding, and adjusted to reflect the month of opening;
- the national total of DSG is reduced by the estimated number of pupils in the new academy as at September, multiplied by the authority's guaranteed unit of funding; and
- academies are funded on the basis of the local authority formula, but with estimated September pupil numbers, to recognise that they will frequently grow rapidly in the years after opening.

64. This system aims to ensure two things: that local authorities do not receive DSG for schools they no longer maintain; and that there is sufficient funding available to the Department to fund academies based on September rather than January pupil numbers. However, there are some issues, both at national and local level: to an extent this is an inevitable consequence of the interaction of a variety of local authority school funding formulae and the national methodology for DSG distribution.

65. Estimated September pupil numbers are normally higher than the actual January numbers in the predecessor school. This is part of the reason why the national top slice is greater than the reduction in DSG allocated to local authorities, which puts pressure on the national DSG total. For 2006-07 the national top slice was £72.5 million, whereas the reduction in DSG to authorities was £39.2 million.

66. In some authorities the reduction in DSG caused when a school becomes an academy is more than the authority would have paid as a budget share to the school (so the authority loses on the transfer); whereas in other authorities the reduction in DSG is less than the authority would have paid to the school as a budget (so the authority gains).

67. Where a number of schools become academies in a local authority, it may conclude that it no longer needs some of the factors in its formula (eg the ones that give additional funding to schools with highly deprived pupil populations) – or that a different set of factors would better reflect the needs of the remaining secondary schools. That would undermine the principle of comparability between academy and maintained school budgets – that is particularly true where the majority or all of an authority's secondary schools are academies, an increasingly likely prospect as the number of academies increases.

68. Almost all academies are secondary schools (a few are all age), and generally have predecessor schools with highly deprived pupil populations. The average spending per pupil on them would therefore have been higher than the remaining schools in an authority. Since DSG allocations for 2006-07 and 2007-08 were based on spending per pupil for 2005-06, including spending on schools that have since become academies, this may lead to the baseline for DSG allocations being overstated.

Options for change

69. We have identified two broad options for the transfer of academies funding from DSG, to cover the replicated budget transfer. Both are discussed under the current spend plus methodology for DSG allocation, but could be used under a single formula for DSG.

- **Option 1** would be to continue with the same system on the basis that the alternative option does not offer significant improvement.
- **Option 2 – recoupment.** Under this model, pupils attending academies would be included in the calculation of an authority's DSG allocation. The Department would then replicate the authority's formula to produce a budget share for the school, and recoup this amount of grant by adjusting an authority's DSG payment profile. Ad hoc, start up and other grants paid to academies would be funded through a national level top slice, as now. Additional September pupil numbers in academies would also be funded through this route.

70. The paragraphs above have set out the problems with the current system, but it is worthwhile pointing out that the current system does have the benefit of relative simplicity so far as DSG allocations are concerned.

71. Option 2 does address some of the problems set out in paragraphs 65 to 68: it avoids winners and losers at local authority level, and the authority would continue to need to take account of the needs of academies in its funding formula. But it cannot deal with the problems created by the mismatch between the different pupil counts used in DSG allocations, and school funding, and academies grant funding. Those issues will continue to need to be dealt with through a national top slice.

Q5: Which method of transferring funding for academies should we use: the current method or the recoupment method?

72. Local authorities remain responsible for the additional costs of pupils in academies who require individually assigned resources, even though these pupils have been removed from the counts used to calculate their allocations of DSG. At present, pupils in non-maintained special schools are recorded on the form 8B data return, and authorities receive a DSG allocation for them. We could extend this idea, and include pupils in academies with individually assigned resources on form 8B. Authorities would then receive additional DSG for them, which would partially offset the continuing costs of meeting these costs.

Q6: Should pupils at academies for whom individually assigned SEN resources are allocated, be included on form 8B?

Reflecting Deprivation in DSG Allocations

73. This section discusses indicators of Additional Educational Need (AEN, of which deprivation is a key component) to be used in the distribution of DSG from the Department to local authorities. Such indicators will be needed whether a single formula or spend plus is used to calculate DSG allocations from 2008-09:

- a. if we revert to a single formula for distribution of DSG from 2008-09, we propose to use the Schools Formula Spending Share formula from 2005-06, and will need to update some indicators in this formula, and replace others that are no longer available; and
- b. if we continue to use the spend plus methodology, it is probable that the formula for distributing funding for Ministerial priorities will have a deprivation component.

74. This section also considers whether there are other indicators that have become available since we last considered this issue in 2002, and have potential as indicators of AEN/deprivation amongst the children in an authority's schools.

75. Finally, we consider the scope for using indicators of deprivation to target funding at pupils in pockets of deprivation in local authorities whose overall level of deprivation is well below average.

Principles for Selection

76. We believe we should have regard to the principles set out below, and that AEN indicators should be:

- Plausible and comprehensible - have an intuitively obvious relevance to school education, explainable and justifiable to both specialists and non-specialists;
- Collected in a manner which gives confidence to all stakeholders – ie:
 - Beyond the influence of local authorities and schools, both in terms of being beyond their direct control, and being unaffected by variations in efficiency/effectiveness between them
 - Robust: accurate and of high quality. This includes being collected consistently across the country using widely accepted and durable definitions
 - Frequently updated
 - Not subject to large short term fluctuations
 - Publicly available to all
- Sufficiently widespread so that all authorities, even those which are small, have reliable values;
- Not highly correlated with other variables used in a composite indicator;

- Child and school based where possible (avoiding cross local authority boundary migration problems);
- Geographically flexible - ie: adaptable to changes in local government boundaries, responsibility or structure.

No one indicator meets all the above criteria, so the final choice of indicators will be a judgment as to which indicators best meet most of the above principles.

Updating the Schools FSS Indicators

77. We next consider what we would need to do in order to update the Schools FSS formula to distribute DSG from 2008-09 onwards. The five data sets used in the Schools FSS formula for 2005-06 and their current availability are set out below.

- a. The proportion of children in families in receipt of Income Support / Job seekers allowance. A 3 year average was taken from August 2000 to August 2002. This data is used as a proxy for the number of children living in poverty and has not been collected since. HM Revenue and Customs recently published data on children in families in receipt of Child Tax Credit at Lower Layer Super Output Area (LSOA)⁸ - this data set also includes data on the level of the tax credit. We will be exploring in detail the potential of this data set as a replacement for the previous indicator based on Income Support over the consultation period.
- b. The proportion of children in families in receipt of Working Families' Tax Credit (WFTC). The data was averaged over 7 quarterly counts between May 2001 and November 2002. Working Families' Tax Credit has now been replaced by Working Tax Credit and Child Tax Credit. An indicator consisting of the proportion of children in families receiving both WTC and CTC has a very similar distribution to WFTC, and could be used for the period 2008-11.
- c. The proportion of primary pupils with mother tongue other than English from the January 2004 Pupil Led Annual Schools Census (PLASC). The proportion of secondary pupils in low-achieving ethnic groups from January 2004 PLASC. Both are available on an annual basis from the Schools Census.
- d. Low Birth Weight: the proportion of live births with a weight of less than 2.5kg averaged over a period between 2000 and 2002. The most recent data is from 2003 to 2005.

⁸ See www.hmrc.gov.uk/stats/personal-tax-credits/intro-ctc-small-area-stats.pdf

Alternatives to Current Indicators

78. Since 2002, when the Department last conducted in depth research into deprivation indicators, a number of geographical based indicators have been produced which are available at very small output areas.

79. The Index of Multiple Deprivation is now available at the level of the individual postcode (in 2002 it was only available at ward level, and was rejected because it could not pick up variations in deprivation below that level). The other main criticism of the IMD made at that time still applies: it uses a significant amount of data that is not relevant to educational outcomes; and that which is relevant to education is available as separate indicators

80. Two other new indicators have become available since 2002: Acorn from CACI and Mosaic from Experian, both of which are available at the level of the postcode. Both can be linked to the postcode data in PLASC to provide estimates of the numbers of children in an authority or in an authority's schools in given categories of deprivation. That is potentially a significant advantage over the data sources that relate to local authority areas, but not the children in schools.

81. The other main advantage of these indicators is that they offer a more finely graded assessment of deprivation: they assess the degree of deprivation, rather than whether a child is in a given category or not. They could for example pick up more of the deprivation associated with children in families that are in low paid work. Their main disadvantages are: they are based on data that is not publicly available; the methodology underlying their construction is not in the public domain; the frequency with which they are updated is not under our control; and they include some data that is not relevant to education. We would welcome views on whether the Department should consider further using these newer geographical based indicators.

Q7: Should we consider using geographical based indicators such as Acorn and Mosaic in the distribution of DSG?

Q8: Are there other deprivation indicators that we could consider?

Targeting Pockets of Deprivation

82. Of the 1.1 million pupils in receipt of free school meals, around 18% are in authorities whose level of deprivation is in the bottom quartile (as measured by the proportion of their DSG distributed on deprivation indicators). These pupils' results are often significantly worse than pupils from deprived backgrounds in authorities whose schools populations are more highly deprived.

83. The primary route for targeting resources towards deprivation must be the proper reflection of existing funding for deprivation in local formulae (see chapter 3 paragraphs 100 to 108 for more detail on the next steps on deprivation funding) – and this will continue to remain the Government's central focus. However, the poor results of deprived pupils in more affluent

authorities suggest there may be a case for targeting some additional central funding towards these pockets of deprivation. If we use the above measures of deprivation to distribute a given amount of funding for deprivation, most of the funding will be allocated to authorities who already benefit from significant extra funding for deprivation. Two options for targeting central funding towards pockets of deprivation would be:

- a. Distribute a given amount of funding on a per pupil basis across all authorities, and earmark it to be distributed through indicators of deprivation within local authorities. Given that many of the most highly deprived authorities are small, and many of the less deprived authorities are large, that would ensure a greater proportion of the total would be allocated to less deprived authorities, and would also be allocated to their deprived schools.
- b. The Schools FSS formula contained a threshold for Additional Educational Needs (AEN) set at the level of the 141st ranked authority – the authorities ranked 142nd to 150th were levelled up to the AEN percentage of this authority. It would be possible to use this threshold for deprivation or to set a higher one – for example at the lowest decile - and distribute a given amount of funding only to those authorities which fall below it, and earmark the funding to be distributed to schools purely on the basis of deprivation indicators. This option would allow for greater targeting at less deprived authorities.

84. Both of these options could be used to make a top up to the existing funding for deprivation distributed through DSG: neither would remove the need for all authorities to continue to make progress towards satisfactory distribution of the existing deprivation funding provided through DSG allocations.

Q9: Should we seek to target funding at pockets of deprivation in less deprived authorities?

Q10: If so, which method of distribution should we use?

Exceptional Circumstances Grant

85. In autumn 2007, we will set DSG guaranteed units of funding for the three years 2008-09 to 2010-11: these will not subsequently be changed. Authorities which experience significant influxes of pupils after the pupil count date for DSG will receive funding for them in the following financial year, and at the rate of their DSG guaranteed unit of funding. If we move the count date for DSG to autumn, any pupils that arrive between the autumn count date and January would then be funded in the following financial year.

86. The three year allocation methodology for DSG responds rapidly to pupil number changes – the data lag is the lowest consistent with setting predictable budgets. But because the DSG guaranteed unit of funding does

not change for three years, if an authority has a significant influx of pupils with additional needs during the coming three year budget period (so that their proportion is higher than previously), those extra needs would not be reflected in the authority's DSG allocation. It is also possible that there will be other significant pressures that could not have been foreseen at the start of the three year period.

87. In the light of this, we propose that alongside DSG, we should create a small grant, which would be paid in exceptional circumstances to an authority which experiences an influx of pupils of a particular type (for example children with English as an additional language), that were not taken into account at the start of the three year period, and where the increase in pupil numbers was above a given level.

Q11: Would a grant for exceptional circumstances be a helpful addition to the flexibility of the system?

CHAPTER 3: SCHOOL FUNDING FROM 2008-09

This chapter sets out proposals for changes to the distribution of funding to schools by local authorities on a three year basis. It starts by discussing the distribution of schools funding and how three year budgets will work for local authorities and schools over the period 2008-11. It considers the scope for changes to the calculation of the Central Expenditure Limit, sets out what is expected of local authorities in distributing deprivation funding to schools, and seeks views on the level, scope and operation of the Minimum Funding Guarantee. Finally, it discusses the options for reducing the level of school balances and altering the remit and composition of School Forums.

Distribution of Funding and operation of three year budgets for 2008-11

88. We expect that the arrangements we put in place for 2006-08 for setting and updating multi-year budgets will remain largely unchanged for the period 2008-11 - but see the one possible exception in paragraph 90 below. Authorities will need to set the following key parameters before the start of the three year period 2008-11, for each of the three years:

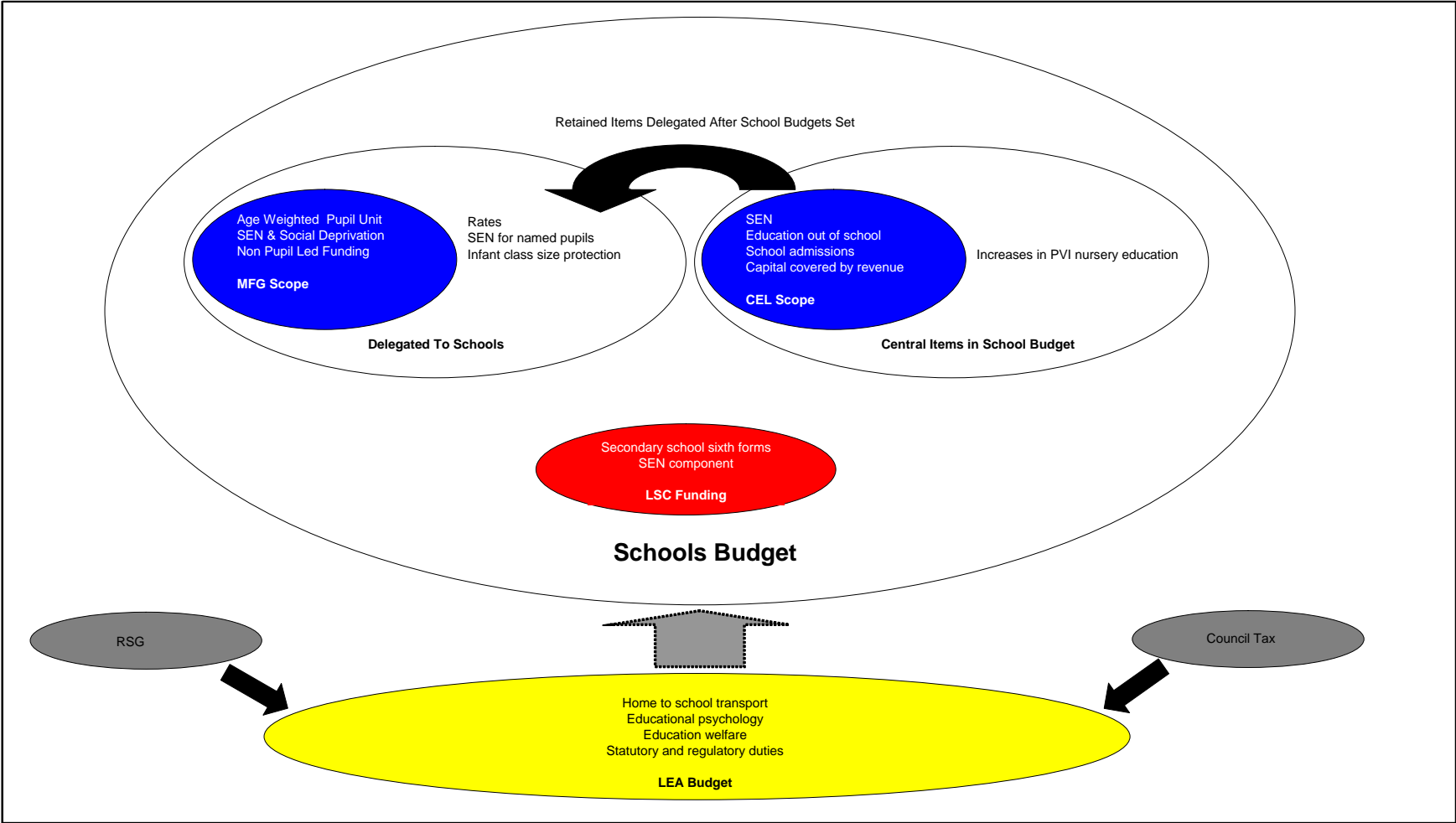
- a. the split between the ISB and the budget for centrally held items;
- b. the formula for funding schools (which could vary across the years, but the variation would need to be specified before the start of the three year period); and
- c. policy on how school budgets will be updated – ie whether pupil numbers only will be updated or whether data feeding into all aspects of the formula will be updated or a position in between.

The principal elements of the Schools Budget are set out in diagram 10 overleaf⁹:

⁹ The budget for centrally retained items within the Schools Budget is for provision such as PRUs, some high cost SEN, early years provision in private voluntary and independent providers. The LEA Budget is separate to this and is to meet the cost of central administration of education and children's services within a local authority, as well as home to school transport and the Youth Service.

Appendix C

Diagram 10: Schools Budget Distribution



89. As now, we would expect local authorities to stick to the decisions they make before the start of the three year period; but they would have the scope to review and change them, with the agreement of their Schools Forum, if the circumstances warranted it. A timeline for the period 2008-11 can be found at Annex 1.

90. The issue of predictability of school budgets for the second year of a multi-year cycle (and of the third year once we are in the second year) is one which may lead us to make some change to the operation of multi-year budgets for 2008-11. Once we have revised section 52 statements for 2007-08, we will analyse the final school budget shares set by local authorities for that year to determine how much they have varied from the school budget shares set in March/April 2006. We expect this analysis to be available in June 2007, in time to inform decisions after the CSR outcome.

91. The analysis of section 52 statements will lead on to a consideration of whether we need to take any further action to improve the predictability of budgets for the second year of a three year budget period. Such action could include stronger guidance, encouraging local authorities to go beyond setting second year budgets at the level of an increase at MFG above the first year. But it could also include amendments to the regulations that would constrain the amount of change that local authorities could make to second year budgets after they were first set. For example, a limit could be placed on contingency, to ensure that as much as possible of the resource for the ISB is distributed to schools when budgets are first set; a limit could be put on change to AWPU values (either up or down) to limit the degree of change to school budgets from that source.

The Central Expenditure Limit

92. This was one of two significant changes to the school funding system introduced from 2004-05. Its aim was to ensure that when an authority is considering the disposition of its Schools Budget, it gives at least as much priority to the funding that is to be delegated to schools as it does to the funding to be retained centrally, for items such as high cost SEN and PRUs.

93. The principle underlying the CEL is a simple one: it restricts the year on year increase in a local authority's centrally retained expenditure from its Schools Budget to the same percentage as the increase in the Individual Schools Budget (ISB, the total amount that is delegated to school budget shares). So, if from 2005-06 to 2006-07 a local authority's ISB grew by 5% its central expenditure could only grow by a maximum of 5%.

94. So that the limit operates on a consistent basis from one year to the next, a number of adjustments and exclusions are made. One example is the transfer of Teachers' Pay Grant into the Dedicated Schools Grant: where an authority has chosen to delegate this through its school funding formula for the first time in 2006-07, it is necessary to adjust the 2005-06 baseline used in the calculation of the limit – otherwise the newly delegated funding would exaggerate the year on year increase in the ISB used in the comparison.

95. In addition, a number of new classes of central expenditure were created for 2006-07: SEN transport; combined services and termination of employment costs are examples. The calculation of the Central Expenditure Limit was not adjusted for these new items so that the impact of decisions by the local authority and its Schools Forum to retain expenditure under these headings was very visible.

96. The overall effect of the changes introduced for the 2006-07 school funding arrangements has been to make the calculation of the Central Expenditure Limit more complicated and difficult for local authorities and their Schools Forums to understand. This matters because Schools Forums now have the power to approve local authority proposals to increase the central expenditure limit. In 2006-07, increases above the Central Expenditure Limit were agreed in 90 local authorities – of these all but 14 were for technical breaches relating to the treatment of items such as Teachers' Pay Grant (which was a transitional issue for that year). We should therefore consider whether or not the calculation of the limit should be simplified, and how.

97. The arguments in favour of retaining the current calculation method for the Central Expenditure Limit are as follows:

- a. it has been applied consistently since it was introduced, and now provides three years' worth of useful benchmarking data for local authorities and their Schools Forums;
- b. if explained properly and worked through carefully, it provides a sound structure for debate within the Schools Forum about the balance between centrally retained expenditure and the funding delegated to schools through the ISB; and
- c. retention in its current form would allow local authorities and Schools Forums to understand fully the workings of the limit for the next three year period.

98. A more radical approach to the Central Expenditure Limit would be to turn the calculation around: instead of placing a maximum size on the budget for central expenditure, a minimum size would be calculated for the ISB. This could be done by stipulating that the ISB should increase by at least the level of the Dedicated Schools Grant increase for the year in question. Increases in central expenditure above a given level would have a direct impact on the ability of an authority to increase its ISB in line with the cash increase in its DSG allocation.

99. The main advantage of this approach is that it would be very much simpler and more transparent than the current methodology. It would require local authorities to explain to their Schools Forums the decisions and circumstances that cause the increase in the ISB to be lower than the increase in Dedicated Schools Grant. Two examples would be: a decision to hold funding for specialised diplomas centrally (see further discussion in chapter 4); and the impact of an academy or academies on the ISB and the DSG allocation. Schools Forums would thus continue to have an informed

discussion about the balance between the central budget and the ISB, but it would be easier for all parties to understand.

Q12: How would you prefer the Central Expenditure Limit to be set: by the current method; or through the simpler comparison between cash increases in Dedicated Schools Grant and ISB?

Deprivation Funding

100. The Government is taking action to ensure that mainstream school funding is properly targeted at pupils from deprived backgrounds. This is a key element of the drive to close the attainment gap between children from low income and disadvantaged backgrounds and their peers.

101. The 2004 Child Poverty Review discussed what would be necessary to achieve the Government's goals on child poverty. It identified education as key to improving the future life chances of children in low income households, and closing the gaps in attainment between different groups as critical to the promotion of a fair and inclusive society. In 2004, for example, only 26.1% of children eligible for free school meals achieved 5 good GCSEs, compared with 56.1% of those who were not eligible. The Secretary of State highlighted this issue in his evidence to the Education and Skills Select Committee, when he was asked what his number one priority was: "Improve attainment, close the social class gap. It is as simple as that."

102. The Child Poverty Review also said that the Government would review the formulae that local authorities use to fund schools to deal with the costs arising from deprivation. This review was published in December 2005, and can be found on Teachernet¹⁰. One of the review's key conclusions was:

It is clear that additional expenditure has a positive, if relatively modest, impact on attainment. This impact is greatest when expenditure is targeted on the most deprived schools, and towards pupils who are eligible for free school meals. The impact of a marginal increase in expenditure at Key Stage 3 is three times as great for mathematics and four times as great for science when targeted on pupils eligible for free school meals.

The review also found significant variations in funding between schools with similar proportions of children eligible for free school meals.

103. The review publication statement set out a series of actions for local authorities and the Department:

- We asked Local Authorities to submit statements about their policies on deprivation funding – these have now been published on the DfES website.
- We have issued a good practice guide setting out the pros and cons of

¹⁰ Child Poverty: Fair Funding for Schools (DfES/HMT 2005): www.teachernet.gov.uk/deprivationfundingreview/

the various deprivation indicators that are now available, with case studies.

- We have placed on our website contextual data on attainment at Key Stages 1,2 3, and 4, split between children reported as eligible for Free School Meals (FSM), and non-FSM children.
- We have asked local authorities to review their formulae now, so that they have in place a formula for the CSR period that adequately reflects deprivation.

104. Children's Services Advisors (CSAs) will monitor the progress of these reviews. They will be asked for their assessment of whether progress in individual local authorities is satisfactory or otherwise. They are well placed to make this assessment given their overview of the performance and context of each local authority, supported by inspection and performance regimes in place. Specifically we will be seeking assurance that local authorities are aligning, to best effect, their strategies for raising attainment overall and narrowing the attainment gap with their local funding arrangements.

105. Alongside this, we are asking local authorities to submit a statement setting out the progress they expect to make over the course of the period 2008-11. This would summarise the key outcomes of their reviews, and how they intend to ensure that their school funding formulae will in future properly reflect the resources distributed to them through the Dedicated Schools Grant for deprivation. The statements will set out: the overall quantum of deprivation funding to be delivered through the local formula; what factors will be used to deliver it; and the extent to which funding will be directed towards those schools with the greatest need. That will allow us to check both that a reasonable quantum is identified locally and that its distribution method is sufficiently sharp. Where the current distribution of funding to schools in an authority does not properly reflect the deprivation funding distributed through DSG, the statement must set out a clear strategy to reach a position where deprivation is properly recognised in the authority's schools funding formula.

106. In assessing further progress on this issue, we will take local circumstances into account. For example, those local authorities with a more homogeneous profile of deprivation across their schools may find that a reasonably flat distribution of deprivation funding is most equitable, particularly when set against wider educational interventions and general regeneration strategies. On the other hand, those local authorities with a more diverse pattern of deprivation are likely to require a much more sharply differentiated distribution methodology. We will also consider the speed at which some local authorities can move to a significantly different funding distribution pattern to their current one, within the context of the outcome of CSR 2007, and the need to ensure continued stability and predictability of school budgets.

107. Our experience from the programme of funding conferences in autumn 2006 has been that many local authorities are keen to address this issue, and are actively considering how they can make progress on it with their Schools

Forums. An analysis of how local authorities have distributed the funding for personalisation within DSG for 2006-07 shows that well over half have distributed the funding to their schools using the same or similar deprivation factors as those within the DSG distribution. However, a number of authorities have chosen to distribute this funding solely on the basis of pupil numbers, without any reflection of the levels of deprivation in their schools: some of these authorities will have to make even more progress over the period 2008-11, in order to properly reflect deprivation in their school funding formula. So for these authorities and those who are not yet advanced in the work on reviewing their formula, there remains much to do.

108. Where progress does remain unsatisfactory for the period 2008-11, we will consider a range of options: from further guidance and support to ensure appropriate proposals are framed locally and implemented; through to placing a condition on individual local authorities as to the amount of and method by which deprivation funding should be distributed to schools.

The Minimum Funding Guarantee

109. The Minimum Funding Guarantee (MFG) was the second of two significant changes introduced into the school funding system from 2004-05 on. Its aim was to ensure that all schools receive a minimum increase in their funding per pupil from one year to the next. The table below sets out the level of the guarantee for each year from 2004-05 to 2007-08.

Table 2: MFG 2004-05 to 2007-08

	2004-05	2005-06	2006-07	2007-08
Primary / Special	4.0%	5.0%	4.0%	3.7%
Secondary	4.0%	4.0%	3.4%	3.7%

110. An outline of the way the MFG works between one year and the next is set out below¹¹.

- a. A baseline of pupil led funding is established, by excluding from the school's budget share for the first year, those components which are clearly not dependent on pupil numbers – for example, funding for rates, for newly qualified teachers or for high cost SEN pupils.
- b. This baseline (known as the adjusted budget share) is increased by the level of the guarantee, and then increased or decreased to reflect changes in pupil numbers: if a school's pupil numbers are rising it receives the full value of the baseline per pupil; if they are falling, the rate of reduction is 80% for a primary school and 87.5% for a secondary school (this reflects the fact that

¹¹ A full account of the MFG methodology can be found on Teachernet at: www.teachernet.gov.uk/docbank/index.cfm?id=9410

fixed costs do not fall when pupil numbers do).

- c. The result of this calculation is the Guaranteed Level of Funding (GLF), which is compared with the school's adjusted budget share for the second year. If the GLF is higher than the adjusted budget share, the school receives the difference as an addition to its budget share for that year – its MFG allocation. If the adjusted budget share is higher than the GLF, no MFG allocation is made.
- d. Finally, funding for exclusions in the second year is added back on to give the school's budget share for that year.

111. The following paragraphs consider four aspects of the MFG:

- whether the methodology should change;
- how variations should be handled;
- how average cost pressures on schools should be assessed; and
- what the level of the MFG might be over the period 2008-11.

MFG Methodology

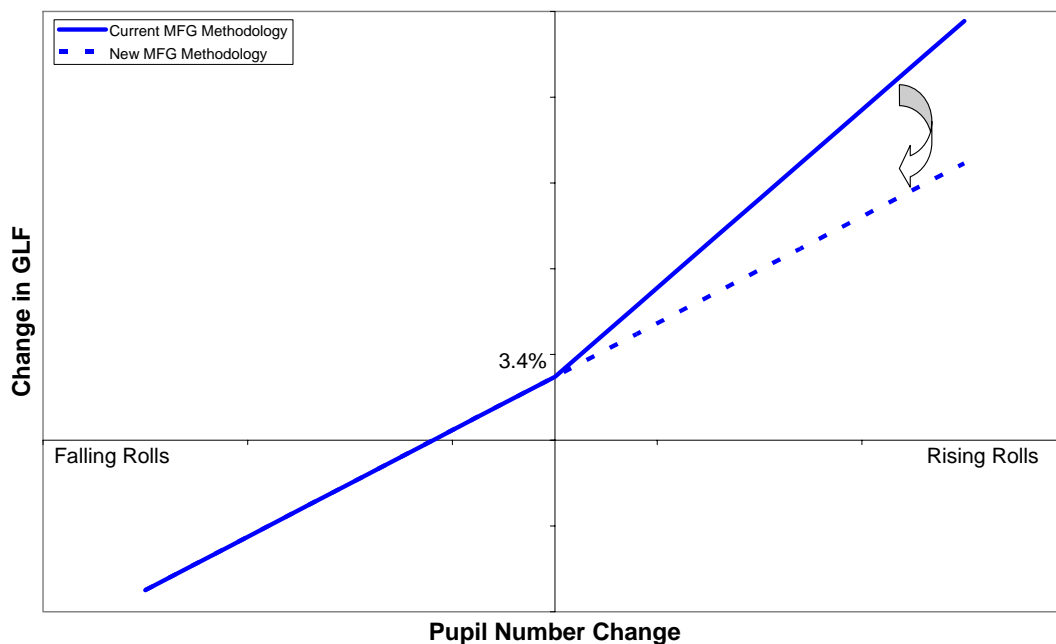
112. As set out in paragraph 110.b, each additional pupil on a school's roll adds a full unit of funding to the GLF, whereas each pupil less reduces funding at a marginal rate. This asymmetry in the MFG calculation is a product of history¹² - a remnant of the "second guarantee", which offered additional protection to schools with significantly rising rolls. Where a local authority has a mixture of rising and falling rolls, this asymmetry increases the funding required to implement the MFG; it therefore leaves less funding to reflect local priorities, and further slows the implementation of formula change.

113. We think that now is the right time to remove this anomaly, and we therefore propose that from 2008-09 the marginal change will apply to schools with both rising and falling rolls. Where this would result in an outcome for a school with very significantly rising rolls that did not deliver sufficient funding, local authorities, with their Schools Forums, will have the discretion to make an alternative arrangement. We are not proposing any other changes to the MFG methodology.

Q13: Do you agree that we should remove the asymmetry from the Minimum Funding Guarantee methodology?

¹² In 2004-05 and 2005-06, the MFG was higher than average cost pressures but was applied at the marginal rates in paragraph 110.b for schools with both rising and falling rolls; and there was a second guarantee for schools with rising rolls, set at average cost pressures, but applied at the full rate. In 2006-07, with an MFG at average cost pressures the second guarantee always applies for schools with rising rolls.

Diagram 11: Current and Proposed MFG Methodology



Handling Variations in the Minimum Funding Guarantee

114. Until the beginning of 2006-07, local authorities could only vary the application of the MFG by applying to the Secretary of State. For 2006-07 onwards, local authorities and their Schools Forums have the power to approve variations locally, provided they do not affect in total more than 20% of the maintained schools in an authority. The 20% limit was seen as a sensible first step, given that this was one of the first powers devolved from the Secretary of State in this area. Variations affecting over 20% of a local authority's schools must still come to the Secretary of State for approval, and there is no power to set the MFG at a different level for all schools.

115. This devolution of power has generally been a positive experience: during the Department's programme of visits to Schools Forums, members were comfortable about discussing issues relating to local formulae and appreciated well the interaction between the formula and the MFG. They generally had a good understanding of the local funding arrangements and the ability to challenge the operation of the MFG.

116. In the light of this, we propose to extend this devolution, and to empower local authorities and their Schools Forums to approve changes to the MFG that affect up to 50% of an authority's schools. As now, they would not have the option to agree a change in the level of the MFG. Alongside this we will consider changes to the way in which Schools Forums reach decisions: one option would be to require there to be a majority of both primary and secondary school representatives in favour of a proposal to vary the operation of the MFG. We would welcome views on this and whether there are other changes to Schools Forum decision making processes that we should consider. We think the proposals in this section strike the right

balance between increasing local flexibility, and retaining the strength of the MFG, which lies in protecting schools against destabilising changes in their budgets.

Q14: Do you agree we should allow authorities to agree with their schools changes to the MFG methodology which affect up to 50% of their schools, as opposed to the current 20% limit?

Q15: Are there other changes to the decision making process on MFG variations that you would like to see considered – such as requiring there to be a majority of both primary and secondary school representatives in favour of a proposal?

Assessment of Cost Pressures

117. As set out earlier in paragraph 13, an assessment of average cost pressures is an important part of setting the level of the MFG. At present average cost pressures on schools are calculated using three groupings of expenditure: Teachers' Pay; non-teaching staff pay; and general non-pay pressures. We propose to continue this approach for the period 2008-11. In addition we would, as now, look at particular pressures by sector, so that if there were general policy pressures particular to primary schools (like workforce reform) or secondary schools (like increases in exam invigilation costs) these would be reflected in our assessment of cost pressures.

118. This assessment of average cost pressures will help to inform schools in shaping their budgets over the three year CSR period, and we will continue to give schools as much certainty as we can over the cost pressures they face. As for the current multi-year budget period, we will work with STRB to secure a multi-year pay agreement for teachers. The 14% cap on employer contributions to the Teachers' Pension Scheme will also offer predictability in this aspect of schools' budgets over the CSR period.

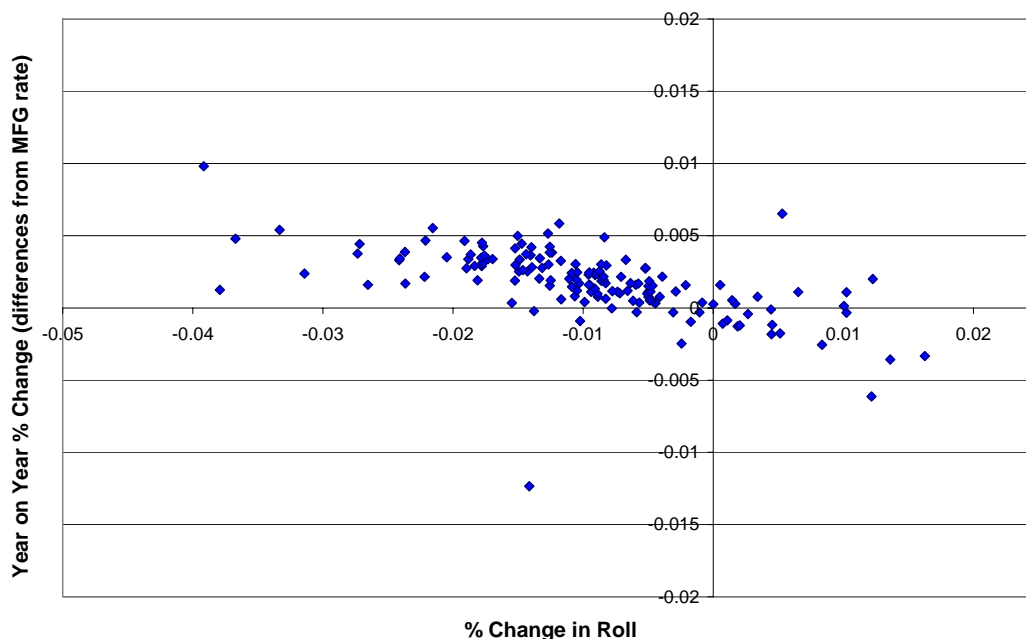
119. We will also continue to set out for schools and local authorities what our assumptions are for expenditure pressures on non-teaching staff pay and on non-pay costs. We will continue to take account of changes to employer contributions to the Local Government Pension Scheme, in our assessment of the pressure on the paybill for non-teaching staff.

Level of the MFG

120. Local authorities require increases in DSG at a level higher than the MFG in order to implement it. Diagram 12 below shows the relationship between pupil number changes by local authority and the overall funding needed to implement the MFG, based on data from 2005-06. It shows that for authorities with overall falling rolls, a margin of up to 0.5% above the level of the MFG was required to implement the per pupil part of it: this margin is a product of the 80% and 87.5% factors in the MFG methodology for changing rolls, for primary and secondary schools respectively. Falling rolls will be an increasing feature of the school system over the CSR period, and more so than in 2005-06, so authorities will continue to need some headroom to deal

with falling rolls. However, since the factors of 80% and 87.5% were set four years ago, and we are asking local authorities to set budgets for the next three years, we intend to review these factors to decide whether they are still valid.

Diagram 12: cost of implementing the per pupil element of the MFG



121. Authorities also need funding to deliver increases in the components of the school budget share outside the scope of the MFG: a detailed analysis of the authorities who took part in the school level modelling exercise showed that this requires between 0.2% and 0.4% over and above the level of the MFG.

122. Since the MFG was introduced, we have always maintained a gap of at least 1% between its level, and the basic increase in DSG (or Schools FSS). The above analysis of historical data suggests that that was the correct course of action: it allowed authorities sufficient headroom for increases in items outside the MFG (up to 0.4%), and the cost of the GLF for items within the MFG (up to 0.5%). For the coming CSR period, and in the context of multi-year budgeting, we should consider carefully the 1% margin between the level of the MFG and the minimum increase in DSG, with a view to a lower minimum increase in DSG, if that is feasible. As set out in paragraph 14 we need to make the best use of the additional resources from the CSR outcome, and a lower margin between the MFG and the minimum increase in DSG would also contribute to that aim. We would welcome views from authorities as to whether it would be possible to implement the MFG with lower headroom.

Q16: Should we continue with the 1% headroom between the MFG and the DSG minimum increase or should we reduce the margin?

123. If we continue the current practice of setting the MFG at the level of average cost pressures for the period 2008-11, local authorities will need to use significant amounts of any additional funding to deliver the MFG – as they have done since its introduction in 2004-05. That will restrict the resources they have available to target deprivation funding more accurately at those schools and pupils who most need it, or to deliver new policies. We should therefore consider whether the MFG could be lowered over the CSR period.

124. The first way in which we could lower the Minimum Funding Guarantee, would be to redefine what we mean by average cost pressures, and assume that schools will be able to make savings on the non-pay elements of their budgets, which make up 20% of total schools spending, to adjust our assessment of cost pressures and lower the MFG accordingly. The scope for making economy and efficiency savings in non-pay will be lower in primary schools because they spend a lower proportion of their budgets on non-pay (many spend in excess of 90% on pay). However, we would expect schools to be able to start making efficiency savings immediately, and any reduction in the MFG calculated through an assumed level of efficiency savings would be introduced from the first year of the CSR period. The next section outlines how schools should approach achieving greater efficiency and value for money.

125. The second way in which we could lower the MFG would be to set it at a level lower than our assessment of average cost pressures (as adjusted in the light of efficiency savings). But as we approach the school funding settlement of autumn 2007, schools and local authorities will not know what their budgets are for the financial year which will start six months later. Detailed planning and budgeting can only proceed when the allocations at local authority level are made. This short planning horizon suggests we should be cautious about a simple reduction for all schools in the level of the MFG for 2008-09 much below the average cost pressures for that year, particularly since schools will have made their plans for the academic year 2007/08, of which there are five months to be funded from the 2008-09 financial year. This would be a particular concern for those schools with significant MFG allocations.

126. But we could start to make additional progress towards a lower MFG through a reduction below average cost pressures in 2009-10 and 2010-11. If we were to announce, in autumn 2007, MFG figures for 2009-10 and 2010-11 that were below cost pressures, then those schools with significant MFG allocations in their current budgets would know that they would not be seeing increases in their budgets which would completely cover average cost pressures. However, they would have 18 months' notice (30 months in the case of 2010-11) and they should be able to plan how they can reduce their costs over that period.

Q17: Do you agree that the assessment of cost pressures feeding into the MFG should take account of efficiency savings, and thus lead to a

lower level of MFG?

Q18: Should we go further than this, and reduce the MFG to below average cost pressures in the second and subsequent years of the CSR?

Improving Efficiency in Schools

127. Throughout the period 2008-11 we will be helping schools to make efficiencies in the following areas:

- Procurement;
- Strategic resource allocation and management;
- Use of technology;
- Use of surplus balances;
- Reduction in surplus places; and
- Shared services.

128. Efficiency and value for money is about making the most of available resources to improve outcomes and should be considered as part of the everyday decision making process. A key to this is better decision-taking about the allocation of resources at school level, supported by better information, planning and management, and better challenge and support. Schools need to review their strategic objectives and how they allocate resources to achieve these objectives. The effectiveness of these arrangements will depend on having the right kind of data on school performance and resources, and the right kind of analysis.

129. One tool for securing school level value for money is comparative benchmarking data, which allows schools to identify best practice. The Schools Financial Benchmarking website¹³ enables schools to compare their expenditure with other schools that are achieving the same level of attainment, but using fewer resources; or a higher level of attainment with the same resources.

130. Achieving value for money also requires governors and school managers to make effective arrangements for purchasing supplies and services and demonstrate that they follow best value principles in doing so. The Centre for Procurement Performance (CPP) has a remit across the whole of education and skills, but it is particularly involved in encouraging schools to take up the best deals on commodities. CPP has published principles for achieving better value from suppliers on its website¹⁴.

¹³ See www.teachernet.gov.uk/schoolfinance

¹⁴ See www.dfes.gov.uk/cpp

131. CPP has also identified opportunities for shared services to support schools. One of these is to achieve both savings and service improvement through the sharing of bursars and other staff to manage financial and administrative activity across schools. We are currently developing models for sharing bursars: we expect that small scale collaboration could begin within 12 months.

School Balances

132. It is a central principle of local management of schools that school Governing Bodies may carry forward revenue balances from one year to the next, to support their future investment plans. They may also build up balances to support particular projects, but they must make firm plans and implement them over a reasonable timescale: they must not hold them indefinitely. Such balances can also form part of a responsible financial strategy, and are a useful feature to consider when schools are planning over a multi-year budget period. They may also set and run deficit budgets with the agreement of their local authority and if a recovery plan has been put in place.

133. Over the past 7 years surpluses have more than doubled: at the end of 2005-06, almost £1.6 billion was held in school bank accounts. The average surplus for primary schools at the end of 2005-06 was over £58,000; that for secondary schools was £225,000. The real terms increases from 1999-00 are 64% and 106% for primary and secondary schools respectively. While there were fewer schools holding excessive balances¹⁵ in 2005-06 than there were five years before, a significant number of schools (around 17%) have retained an excessive surplus for each of the last five years.

134. We accept that many schools hold surpluses for legitimate reasons; but for others it is less transparent, and the increase in overall balances is a legitimate cause for concern amongst other schools, local authorities and central government. As a result we recently took action to improve the confidence of all partners that, where surpluses do arise, they are for specific and planned reasons. We have made it mandatory for all local authority schemes for financing schools to include a control mechanism for surplus balances, which enables the authority to claw back excessive and uncommitted balances from schools.

135. A number of authorities already have such a mechanism, and one or two have used it to recycle excessive school balances. If over the course of the period 2008-11, local authorities were to claw back half of the excessive balances over 5% and 8% thresholds, around £110 million would be released for redistribution. That is a comparatively modest part of the £1.6 billion held in balances, and in the light of the rise in balances over the past five years, we propose below two further measures.

- a. A levy on all positive balances, which would be recycled for wider use by schools. For example, a 5% levy would raise

¹⁵ Defined as over 8% of total revenue funding for primary schools and 5% for secondary schools.

around £75 million per year for wider use within schools. In essence this would recycle the interest on balances. This would be a simple measure to implement, and would encourage schools to think very carefully about the level of balance they needed to hold.

- b. Strengthened guidance on balances for local authorities and Schools Forums. That would include clarification and tightening of the legitimate reasons for holding a balance and advice on the treatment of revenue balances committed to capital expenditure. We could couple this with a lowering of the thresholds for excessive balances. This is a less hard edged approach to option (a), but it does allow local circumstances to be taken more into account.

We would welcome views on these proposals, and whether they will be effective in reducing the level of balances held by schools, and ensuring that resources are used efficiently.

Q19: Would a levy on balances and extra guidance be effective in reducing the current level of excessive balances?

Role and Operation of Schools Forums

136. Schools Forums were introduced into the school funding system by the Education Act 2002 in an advisory capacity. Decision making powers over aspects of the Central Expenditure Limit and the Minimum Funding Guarantee were devolved from the Secretary of State to them in Schedule 5 to the Education Act 2005. The Education and Inspections Act 2006 made further provision in relation to Schools Forums:

- a. it abolished the Secretary of State's power to remove non-school members from Schools Forums;
- b. it made provision for regulations to enable Schools Forums to approve changes to their local authority's scheme for financing schools; and
- c. it made provision for regulations to require local authorities to provide the governing body of a new school with a delegated budget at least 15 months prior to the school's opening to enable them to meet their start-up costs, and to enable Schools Forums to agree a different date.

137. The broad thrust of these changes is clear: it is to devolve decision making powers and responsibilities from the Secretary of State where it is clear that such decisions are best taken locally. The Department undertook a programme of visits to Schools Forums in 2006: the main aim was to review practice on the ground; but it has also allowed us to assess whether there was capacity to take the process of devolution of decision making further. The programme of visits confirmed the strength of many Schools Forums and the

diversity of their make up. We are publishing a summary of the findings from these visits alongside this document. The rest of this section considers whether we should alter the composition of Schools Forums, to further strengthen them; and also whether we should widen the remit of Schools Forums.

138. The basic composition of Schools Forums requires there to be a minimum of 80% schools members (which under the current regulations must be headteachers or governors) with up to 20% non-school members drawn from the wider educational community at the discretion of the local authority.

139. One of the problems with the current composition is that it can place a lot of pressure on busy headteachers and governors – particularly in small authorities. To expand the pool of people who can serve on School Forums, we propose that the regulations should be amended to allow the election of other members of a school's leadership team, including bursars as 'schools members'. While it is currently possible for bursar associations to have a place within the non-school representation of a Schools Forum they are clearly school based representatives and should, therefore be classed as such. And their increasing profile and responsibilities for financial management, particularly in secondary schools, places them in an ideal position to sit on Schools Forums and inform and contribute to the debate.

Q20: Should we amend the Schools Forum regulations so that other members of school senior management teams, including Bursars, can be elected as schools members?

140. There is no minimum requirement for non-schools members, and some Schools Forums consist entirely of schools members. The remit of a Schools Forum is to be a consultative body on the Schools Budget as a whole, and not just the part of it which is delegated to schools. Across the period 2008-11, parts of the Schools Budget will increasingly become part of collaborative arrangements for 14-16 year olds. Chapter 5 sets out proposals for development of early years funding: one of the issues identified there is the lack of influence of early years practitioners on funding proposals discussed by Schools Forums. This suggests that all Schools Forums should have representation drawn from a wider set of stakeholders than school headteachers and governors.

141. It would be possible for national regulations to impose a requirement on local authorities that that they must seek nominations for their Schools Forum's non-school members from certain groups, such as members of the 14-19 partnership and early years representatives – and our presumption is that these new members would be practitioners. In the light of the important developments in 14-19 and early years we propose this as a first step, and that we should issue guidance that all local authorities should have at least these non-schools members.

142. In the light of the increased importance of the wider agenda beyond schools, we should also consider whether the current balance between schools and non-schools members allows local authorities enough flexibility.

The current maximum proportion of non-schools to schools members is 20:80. We would welcome views as to whether we should alter this ratio.

Q21: Do you agree that all local authorities should have non-schools members from the early years sector and 14-19 partnerships?

Q22: Should we raise the current maximum proportion of non-schools members above 20%?

CHAPTER 4: FUNDING FOR SPECIALISED DIPLOMAS AT 14-16

This chapter sets out our proposals for funding local authorities and schools for the roll out of specialised diplomas for 14-16 year olds across the period 2008-11. It proposes that local authorities should be funded for specialised diploma provision through a specific grant rather than DSG. It seeks views on three models for funding 14-16 partnership provision: central funding pool retained by the local authority; a central funding pool with partial delegation; and complete delegation to schools. It also considers the delivery costs of specialised diplomas, and how these might be set nationally through the LSC's new funding methodology, and sets out how this might be modified to provide scope for local flexibility on cost levels. Finally it discusses the potential for cost reductions across the period 2008-11 as increasing numbers of 14-16 year olds take up places in partnership provision.

Background and Context

143. The FE White Paper, published on 27 March 2006, said that we would explore the feasibility of changes to 14-19 funding arrangements to support delivery of the new curriculum and qualification entitlements set out in the 14-19 White Paper and Implementation Plan.

144. The breadth of the new 14-19 entitlement means that schools, colleges and other providers will need to work together in partnerships to deliver it. Many more young people will spend part of their time studying away from their home institution, in order to take advantage of facilities and teaching in a college or elsewhere – as significant numbers already do, for example through the Increased Flexibility Programme and Young Apprenticeships. Such provision is referred to as “partnership provision” throughout this document.

145. Mainstream schools funding must support this pattern of study. Current funding arrangements for 14-19 provision involve the alignment of a number of mainstream and developmental funding streams with different purposes and methodologies. These arrangements are unlikely to be robust enough to cope effectively with the increasing level of demand for partnership provision as Specialised Diplomas are rolled out from 2008.

146. Chapter 6 of the FE White Paper set out the principles which will inform the development of our approach to 14-19 funding:

- the choices of learners must drive funding methods and allocations, and not vice versa;
- comparable funding must be allocated for comparable activity irrespective of who provides the learning;
- where, in the best interests of the student, programmes are best delivered by more than one institution, funding must support and incentivise that to happen;

- funding must recognise the genuine additional costs of learners studying or training in more than one institution;
- the same learner should not be funded twice to attend different institutions, and institutions should pursue cost effectiveness;
- funding should incentivise the improvement of participation, progression and achievement rates;
- schools and colleges must have discretion as to how to spend their budgets;
- funding should be through a single system as far as possible, rather than through separate ring fenced pots; and
- the method must be transparent, simple for institutions to understand and operate, provide appropriate stability and certainty for future planning, and avoid unnecessary bureaucracy.

147. Alongside the roll out of Specialised Diplomas, the Learning and Skills Council (LSC) plans to make changes to its funding methodology for 2008/09. These will depend on the outcome of the current joint DfES/LSC consultation, 'Delivering World-class Skills in a Demand-led System', which ends on 30 March 2007¹⁶. That consultation sets out proposals for a common 16-18 funding approach for school sixth forms, colleges and private providers, building on the commitments made in the FE White Paper. It includes details of the funding formula and options on how best the objectives of the White Paper could be met as well as proposals for the future funding of Post 16 special educational needs. The proposals set out in the consultation for 16-18 funding would maintain a number of the elements of the current system so funding would continue to be based on the mix of qualifications and size of programmes with uplifts for area costs and disadvantage as well as an element based on success rates.

148. In the current two year funding period the following funding has been earmarked within local authorities' DSG allocations, for the delivery of more practical learning options at 14-16: £40 million in 2006-07 and £110 million in 2007-08. In addition to this, £36 million is currently distributed through the Increasing Flexibility Programme (IFP) for 14-16 provision.

149. In broad terms, we propose to retain the current funding arrangements for pre- and post-16 provision over the CSR period, and to facilitate coherent planning by 14-19 partnerships through changes to the funding arrangements. Other options, such as the creation of a single 14-19 funding system or funding learners through the institution at which they spend most time, present very significant practical and legislative barriers, and are not being considered further.

Funding Local Authorities for Specialised Diplomas

¹⁶ See www.dfes.gov.uk/consultations/conDetails.cfm?consultationId=1454

150. How funding for specialised diplomas should be distributed by the Department to local authorities will depend on the pace and coverage of the roll out programme. The first five diploma lines will be offered from September 2008, the next five from September 2009 and the final four from September 2010. Local authorities will make progress at different rates towards offering all 14 lines across and within their area, since access to all 14 lines only becomes an entitlement from 2013.

151. The period covered by the CSR will be one in which different local authorities are offering differing levels of provision for specialised diplomas at 14-16 at the key points when the Department makes funding decisions: some local authorities may make rapid progress, so that by September 2010 they are offering all 14 lines; others will proceed more slowly, and may only be offering half the diploma lines or fewer by September 2010, and not all of these at all three levels; and some authorities will roll out individual diplomas across their local area in stages.

152. We assume that in funding local authorities for specialised diplomas at 14-16 across the CSR period, we will want to reflect the differing numbers of lines offered in each local authority and hence the differing level of activity and volume of provision for specialised diplomas at 14-16. We also assume that our approach to distributing DSG will produce a guaranteed unit of funding, set at the beginning of the three year CSR period, with final DSG allocations depending on actual pupil numbers, as now.

153. Schools, colleges and other providers wishing to offer specialised diplomas in 2008 will need to pass through a gateway process. The Department has so far published a detailed timetable for the first five diplomas, and the key dates for funding decisions are set out below:

- March 2007 – Gateway results published;
- July 2007 – Further gateway results published for those consortia given an extra three months to meet the standard;
- September 2007 – Awarding body approval process starts; and
- September 2008 – Delivery of first five diplomas starts.

154. No decisions have yet been taken about the detailed timetable for roll out of waves two and three of specialised diplomas, and the timetable may be adjusted in the light of experience with the first wave. For the purposes of this paper however, we will assume that the roll out follows roughly the same timetable used in for the first wave. The table at Annex 2 shows what the broader decision making timetable for specialised diplomas would look like alongside the timetable for making DSG allocations.

155. By the time we make allocations of DSG for the three year CSR period – autumn 2007 - we will have the outcome of the first gateway process only. That will not offer a basis on which we can distribute DSG across the whole three year period, since the pattern of 14-16 provision following the second

and third gateway processes is likely to be very different as more authorities get through the gateway process, and existing authorities take additional diplomas for more areas through the gateway process. This strongly suggests that we cannot fund 14-16 provision for specialised diplomas through the DSG, since the volume of provision will build up in a way that cannot be accurately predicted or modelled when we set guaranteed units of funding before the start of the three year CSR period. And it would be wrong to fund 14-16 provision on a universal basis for the years when some authorities will be offering significantly lower levels of provision than others.

156. The alternative to DSG funding for 14-16 provision for specialised diplomas will be to make it available to local authorities through a specific formula grant, and the size of allocations could be geared to the following factors:

- a. diploma lines to be offered, and their varying costs – which will depend on the diploma line being delivered;
- b. areas of the authority in which they are to be offered (so a measure of how many of the authority’s children will be able to access the diploma);
- c. the additional costs of provision in areas where wage costs are high;
- d. how sparsely populated an authority is – as a proxy for the increased transport costs that many rural schools will face; and
- e. overall pupil numbers in the authority.

Since we do not intend to double fund local authorities and schools for pupils in partnership provision, we will take account of a level of cost reduction in setting the overall amount of grant to be distributed to local authorities for 14-16 specialised diploma provision. There is further discussion of this issue below at paragraphs 177 to 182.

157. The timetable for finalising allocations of this grant is also set out in Annex 2: allocations would be announced after each gateway process is completed, so we know broadly how much provision we need to fund in each local authority area. In the longer term – once provision has become universal - we will mainstream the grant for 14-16 provision.

Q23: Do you agree that funding for specialised diplomas for 14-16 year olds should be through a specific formula grant?

Delivering Funding to the Front Line

158. We recognise that there are additional costs when learners study or train in more than one institution: this section discusses three models for routing that funding through the school funding system, and the associated arrangements for management. The related issue of the degree to which schools can offset those costs and reduce potential double funding by

reconfiguring their provision is discussed in more detail in the last section of this chapter. But it is an assumption in all the models set out below that there will be some contribution from school budgets to the cost of partnership provision, since they already include funding for a full time education for children at Key Stage 4. The additional funding delivered to local authorities for the period 2008-11 is not intended to fund the whole cost of partnership provision, otherwise we would be double funding that provision.

159. In all of the models, the 14-19 partnership will plan provision locally, and will facilitate the supply of provision that will be needed in each local area to meet the demand for Specialised Diplomas. They will do so on behalf of the local authority and the LSC, who will allocate funding to providers, taking account of the available funding through DSG and the specific formula grant for 14-16 specialised diploma provision. The 14-19 partnership would also be the forum in which the cost of provision would be agreed. The detail of costs and funding would be set out in the 14-19 area plan.

Funding Model 1 – Central Funding Pool (Insurance Model)

160. In this model, all the additional funding for partnership provision allocated through the specific grant discussed in paragraph 156 would be retained centrally by the local authority, which would be responsible for paying it all out to providers. The AWPU funding in respect of each pupil taking up partnership provision would be reduced, and this funding would be added to the centrally held pool of grant funding. The level of the AWPU reduction would include the assumed cost reduction in the national grant distribution. The allocation of this funding would be planned by the 14-19 partnership, and the local authority would commission partnership provision, to be funded from the central pool.

161. There are two ways in which the AWPU reduction could be made: either as a flat rate for all pupils going into partnership provision, regardless of how much of their time they spend in this provision; or to reflect the amount of time each pupil spends in this provision – so the reduction for a pupil that spent a day in this provision would be twice that for a pupil that spent half a day. The former is straightforward and non-bureaucratic; the latter is perhaps more equitable, but would require more data to be collected from schools.

162. The AWPU reduction would be applied when a school's budget is finalised before the start of the financial year. During the roll out period for the programme of specialised diplomas, pupil numbers in partnership provision are likely to be higher in the new academic year from September than in January, and the authority would therefore need to base the AWPU reduction on projected September numbers to take account of this. The local authority would also want to take advice from the 14-19 partnership about their view of take up and availability of provision in the next academic year, with final allocations subject to the gateway process.

163. Under this model schools would have certainty about their budgets for the coming financial year, and they would also know that they would not face additional costs as the number of pupils taking up partnership provision

increases. This would provide the largest possible pool of funding for the 14-19 partnership to manage, and also allows for the pooling of risk that an insurance scheme provides.

Funding Model 2 – Central Funding Pool and Partial Delegation

164. In this model, all the additional funding for partnership provision allocated through the specific grant discussed in paragraph 156 would also be retained centrally by the local authority, and paid out to providers. It would make no AWPU reduction in respect of pupils attending partnership provision, but schools with such pupils would have to make a contribution to the cost of the provision from their delegated budgets.

165. As in the previous option, the use of the funding pool would be planned by the 14-19 partnership, and the local authority would commission the partnership provision. Payment for the provision would come partly from the pool and partly from schools' delegated budgets. It would be open to the 14-19 partnership to recommend to the local authority that it should contribute more to the cost of more expensive diplomas, and less to the less expensive ones, leaving schools to find a flat rate of funding from their delegated budgets for each pupil taking up partnership provision. The funding contribution from schools would take into account the assumed cost reduction.

166. This option would mean that schools had the same certainty about their budgets that they have under the current funding system. But they would not have certainty about the costs they would incur for the coming financial year, since the number of pupils in partnership provision could well increase in September, with the start of the new academic year. This is the option which requires least change for the school funding system.

Funding Model 3 – Complete Delegation (Pay as you go Model)

167. In this model, the additional funding for partnership provision allocated through the specific grant discussed in paragraph 156 would be delegated through an increase in the AWPU to schools based on the planned numbers of pupils taking up partnership provision. The 14-19 partnership would remain responsible for planning provision in its area, but the cost of provision would be met by schools from their delegated budgets.

168. As with the AWPU reduction, the AWPU increase could be applied as a flat rate or in proportion to the amount of provision being accessed by each pupil. Since the amount of funding affected would be larger, the latter method would probably be preferable, even though it would be less simple to implement.

169. This option puts the greatest amount of funding in schools' budgets; and those budgets would have the same degree of certainty as under the other two options. However, this option also has the greatest degree of uncertainty for schools about the costs they face. Not only would they not know how many pupils would be taking up partnership provision from the start of the new academic year in September, but they would also not know – until

pupils had made their choice of course – what the level of cost of each pupil taking up provision would be. The pros and cons of each of these options are set out in the table 3 below.

Table 3: Pros and cons of three funding models

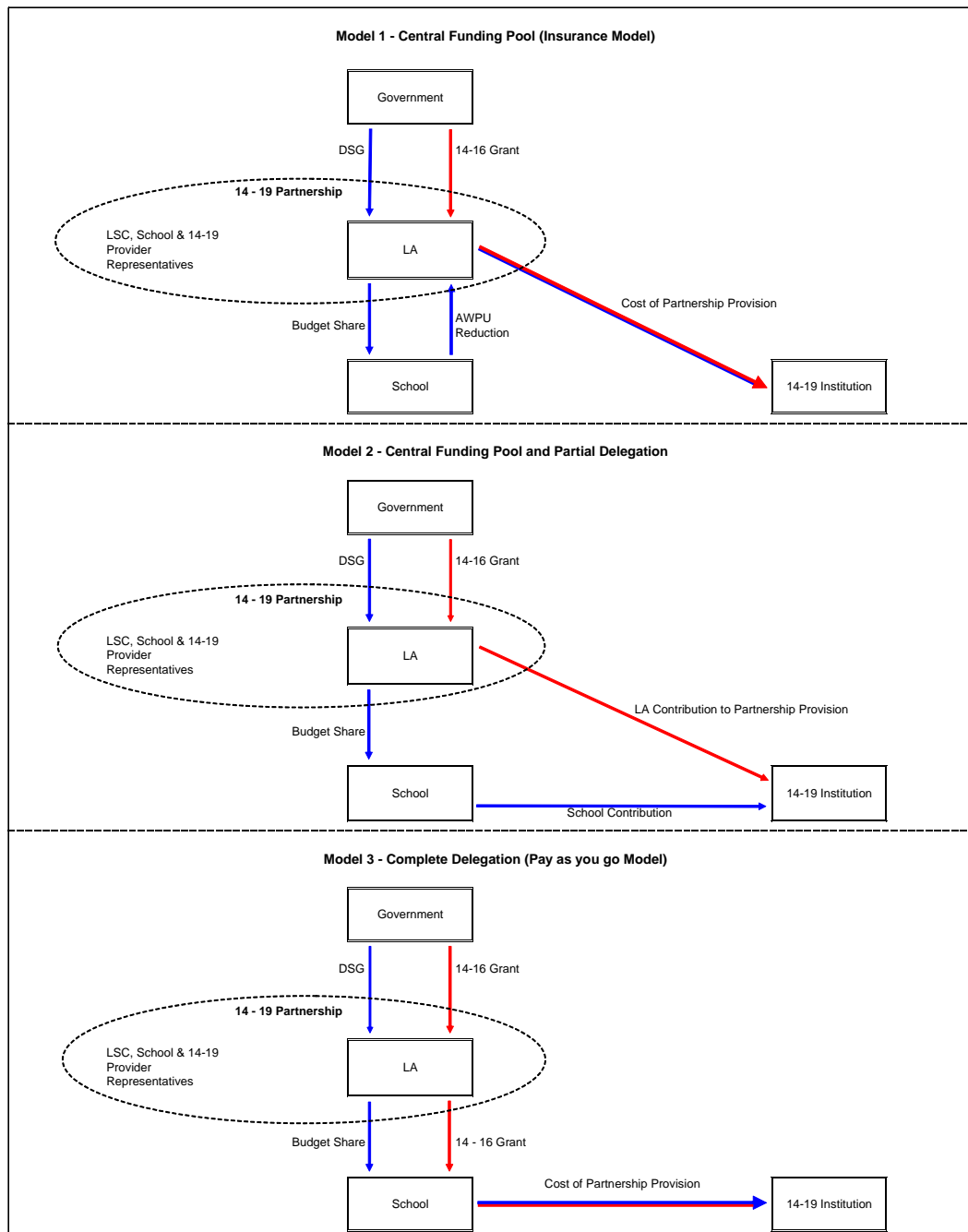
	Option 1 (Insurance)	Option 2 (Partial delegation)	Option 3 (Pay as you go)
Advantage	Certainty about costs and budgets for schools	Certainty about budgets for schools	Maximum funding in school budgets
Disadvantage	Less funding goes into school budgets	Uncertainty about costs for schools	Uncertainty about costs and budgets for schools

170. We would welcome views as to whether this is the right range of options to offer. We propose that the decision on which of the three models should be used should be taken by local authorities, in consultation with their Schools Forums. As discussed in chapter 3, we propose that Schools Forums should include representation from the 14-19 partnership (see paragraph 141 above).

Q24: Are the three models for distributing funding for specialised diplomas at 14-16 to the front line the right range of options?

Q25: Do you agree that we should leave the choice of which option to local discretion?

Diagram 13: Funding Flows between Key 14-19 Partners



Delivery Costs of Specialised Diplomas

171. Alongside the flows of funding for 14-16 provision, we also need to consider the costs that will be charged to schools by providers of partnership provision, and the degree to which these should be set nationally. From the 2008/09 academic year, the providers of specialised diplomas outside schools will be funded through the LSC's new funding methodology as described in paragraph 147. Using this as a basis for establishing and setting costs of specialised diploma provision has some attractions: it would provide a clear rationale for guidance on what different specialised diplomas would cost schools as well as providing post-16 institutions with a funding stream that is

consistent with the rest of their LSC funded provision.

172. One drawback of this approach is that costs would be influenced by the institutional profile of each post-16 setting: its average class size; the level of deprivation amongst its student population; and whether it attracts area costs or not. This will give rise to a degree of mismatch between institutional costs as assessed by the LSC funding methodology, and the actual costs of provision for pre-16 pupils. This may be minor in some cases but that will not always be the case. In some instances, for example, pupils may be attending institutions outside of their immediate area in order to access specific kinds of provision and it may be unreasonable (and unsustainable) to ask a school to meet costs that are based on an institutional and learner profile that are very different from their own. And an over rigid application of this model would also limit the scope for local commissioning and brokering.

173. This suggests that we should not impose a rigid assessment at national level of the costs to be charged to schools for 14-16 partnership provision. However, we do need to strike a balance between: allowing for local flexibility to broker deals; ensuring that funding rates are sufficient to provide quality learning; and ensuring some consistency and coherence in the costs of provision at local level. This is important to assure quality in learner entitlements: it would be unhelpful if 14-19 partnerships (or individual schools) sought to drive the costs of provision from post-16 providers down to a degree that compromised the quality of the learner experience. Equally, the cost of partnership provision for 14-16 year olds needs to be affordable to schools.

174. One way of striking this balance would be to:

- a. produce a set of basic national rates for the partnership elements of each diploma, which would depend on the diploma line offered;
- b. separately identify uplifts for area costs which would be the usual basis for local agreement but which could be moderated if necessary; and
- c. separately identify uplifts for deprivation which would be the basis for local discussion about the learners attending provision rather than the institutions the learners are attending.

175. The basic national rate would provide some assurance that costs would not be driven down to the point where quality was put at risk or would not be set too high so that the provision becomes unaffordable. The separate treatment for deprivation would ensure that a school with low levels of deprivation would not be asked to pay uplifts for deprivation simply because the local institution's usual learner profile is from predominantly deprived areas. On the other hand, a school with larger numbers of deprived pupils taking up partnership provision might reasonably pay the college an uplift even if the college's usual learner profile is from less deprived areas.

176. This approach seeks to strike a balance between the application of nationally prescribed rates resulting from the LSC funding methodology and allowing a degree of local flexibility within the context of clear and consistent guidance on what delivery costs should be. We would welcome views from consultees on this approach.

Q26: Do you agree that the LSC funding methodology should be used as the basis of setting the cost of partnership provision to schools, with local discretion to reflect the varying costs of provision and funding levels received by schools?

Scope for Reduction of Double Funding

177. So far, this chapter has considered the additional costs of, and funding for, partnership provision. One of the guiding principles in the FE White Paper was that the same learner should not be funded twice to attend different institutions, and institutions should pursue cost effectiveness. This section considers the factors that will determine whether or not schools can achieve cost reductions, so that they do not end up paying for the same learner twice: once for the cost of partnership provision, and once for the cost of the school on the student has left behind. And as set out in paragraphs 156 and 158 above, a level of cost reduction will be assumed in the funding of local authorities for partnership provision, to minimise double funding.

178. When a number of pupils go from a school into partnership provision, that school will need to consider whether the same pattern of provision is required for the pupils that remain, or whether that provision can be reconfigured so that there are fewer groups of learners, and as a result costs may be reduced. If fewer pupils go into partnership provision, they may simply leave behind a slightly smaller group of learners, and no re-configuration of provision is possible, and there can be no reduction in cost.

179. The Department has carried out modelling work using the five local authorities from the school level modelling project to assess the scope for cost reductions when pupils take up partnership provision. The modelling makes assumptions about different types of schools and the propensity of their pupils to take up partnership provision and about the elements of a school's budget where costs could be reduced. The critical assumption is that there is no linear relationship between the number of pupils taking up partnership provision and the associated cost reductions – these are only achieved when whole classes of pupils take up partnership provision.

180. Based on that work, we estimate that the increase in the AWPU under funding option 3 set out above would be around 1.3 (although it varies from authority to authority) – so the AWPU for a pupil taking up partnership provision at KS4 would be 1.3 times the AWPU of a child that did not take up such provision. Under funding model 1, the AWPU would need to be reduced to 0.9 of its standard level. All the models looked at provision delivered off-site. It is likely that provision delivered on-site in schools would imply different AWPU changes: that is because schools are less likely to offer the higher cost specialised diplomas, such as Engineering or Construction and the Built

Environment.

181. The following worked example illustrates how funding would flow in each of the three options. The numbers are based on figures from the school level modelling but have been rounded for ease of reference. The worked example assumes the following basic information across all three options:

- A Key Stage 4 AWPU of £3,000;
- A delivery cost for a one day a week specialised diploma of £1,200;
- An assumed cost reduction of £300 when the student moves into partnership provision; and
- Grant funding per year from DfES of £900 per student per specialised diploma per day.

Under option 1, the local authority reduces the AWPU by £300, to £2,700, ie 0.9 of its previous level. To this it adds the £900 grant from DfES to cover the £1,200 cost of provision.

Under option 2, the local authority meets £900 of the cost of partnership provision using the DfES grant, and the remaining £300 is met by the school from its delegated budget.

Under option 3, the local authority adds the £900 grant to the KS4 AWPU, so that it is then £3,900, ie 1.3 of its basic level of £3,000. The school then meets the £1,200 cost of provision from its delegated budget.

182. These estimates of the potential for cost reduction – and the impact on the AWPU changes under options 1 and 3 are based on a number of assumptions, and on the situation in five local authorities. We would welcome views from consultees on their experiences of partnership provision under existing arrangements and what those arrangements tell them about the scope for cost reductions in schools with pupils in partnership provision. This will be useful to the Department in setting the level of cost reduction to be assumed in the distribution of funding for specialised diplomas to authorities.

CHAPTER 5: EARLY YEARS FUNDING

This chapter discusses our proposals for funding the free entitlement to early years provision for three and four year olds. It starts with a description of the Government's aims for early learning and care, and the key features of the Local Authority role as commissioner of this provision. It goes on to describe the current early years funding system, and sets out the challenges to funding a more flexible early years entitlement in the future. It sets out three proposals, the objective of which is to bring the funding systems for PVI and maintained provision into closer alignment to enable local authorities to shape the market in response to parental demand: changes to the pupil count for early years provision in maintained settings; encouraging local authorities to use the same method to set the level of per pupil funding for maintained and PVI settings; and a single local formula for funding all free entitlement provision. It seeks views on the benefits of these proposals, and possible timescales for their implementation. Finally, it makes proposals for a greater role for the early years sector in Schools Forums, and in the process of developing the funding system for early years.

Aims for Early Years and Childcare

183. The current early years entitlement is to 12½ hours free early learning and care per week for 38 weeks a year, accessible from the term following a child's third birthday. Local authorities have a duty to secure the entitlement in response to parental demand. Securing delivery of the free entitlement is a key part of local authorities' new commissioning and market facilitation role as set out in the Childcare Act 2006.

184. The 10 year childcare strategy made a commitment to increase the length and flexibility of the free entitlement. From April 2007, the roll-out of 15 hours free provision that can be taken flexibly over a minimum of three days will begin in 20 pathfinder areas. Whereas the entitlement currently tends to be delivered in 2.5 hour morning or afternoon sessions over five days of the week, providers will be expected to offer greater flexibility through, for example, longer sessions taken over fewer days.

185. The demand for flexibility will vary depending on parents' working patterns and on how the free entitlement can best fit into the full package of care and education for each child. It will also depend on what the market can deliver. The practicalities of delivering flexibility will be explored in the 20 pathfinder local authorities, but the main changes in the pattern of provision are likely to be:

- extending the hours between which the free entitlement is available across the day - half the pathfinders are testing 8am to 4pm and the remainder 8am to 6pm; and

- providing access to longer sessions of different lengths, which could extend across breakfast and lunchtime so that the full entitlement can be accessed over three days.

186. We do not envisage all providers making all of these changes: in many cases the pathfinders are developing clusters of providers who together can offer flexible provision in response to parental demand. As a result, the proportion of children taking up their entitlement at more than one provider is likely to increase. Local Authorities will need to ensure that provision is properly integrated to provide continuity of care for children and seamless services for parents. The school funding system will need to support this more flexible pattern of provision.

The local authority commissioning and market facilitation role

187. The local authority planning and commissioning function is a significant backdrop to a discussion of how the free entitlement should be funded in future. This section summarises the current and future requirements and expectations, which the school funding system will need to support.

188. The Childcare Act 2006 sets out a range of new duties on local authorities in relation to childcare and early years provision. From April 2008 local authorities will be under a duty to reduce inequalities and improve outcomes of all the young children in their area through the planning and provision of early childhood services, including the free entitlement. National and local statutory targets in relation to this duty will be set by April 2008. Local authorities will also have a duty to assess childcare provision in their area (from April 2007) and to facilitate the market to secure sufficient childcare to enable parents to work or make the transition to work (from April 2008).

189. In fulfilling these duties local authorities will need to secure value for money and comply with procedures set out in the overarching guidance in “*Joint Planning and Commissioning of Children and Young People’s and Maternity Services*”, in the statutory guidance on the childcare assessment duty and the forthcoming guidance on the childcare sufficiency duty. The views of parents and children are vital and care should be taken to include the views of low income families, parents of disabled children and other groups at risk of social exclusion.

190. Local authorities should consider all viable options for provision of early learning and care and should take action to ensure that providers and other relevant partners are fully and routinely consulted when making judgements about the planning and commissioning of services. Smaller providers in the private, voluntary and community sectors, small and medium enterprises, and social enterprise models can be well placed to deliver services that are competitive, responsive, efficient and effective.

191. In commissioning the free entitlement local authorities should:

- secure high **quality** early learning and care in accordance with the Foundation Stage curriculum and the National Daycare standards (the

Early Years Foundation Stage from September 2008) that is **accessible** to all families who want it;

- Respond to parental demand for **flexibility**, so that parents have choice over where and how to obtain the free entitlement and the diverse needs of all children are met. In particular parents should be able to take up their entitlement in more than one setting;
- Support the **sustainability, efficiency** and **diversity** of the childcare market; and
- Ensure that the free entitlement is funded appropriately.

192. Given the changes in how the entitlement is to be accessed in the future, local commissioning systems will need sufficient flexibility and sophistication to respond effectively to parental demand. These systems are likely to have the following characteristics:

- Funding across different settings will be transparent, fair and easily explained.
- Systems for releasing funding to providers will minimise cash-flow problems for smaller providers and will enable them to provide the entitlement free at the point of delivery to all parents.
- Arrangements for and conditions of funding should not disadvantage a particular provider or group of providers and should be subject to local consultation.
- Where relevant, local authorities as commissioners will be able to take account of the quality, appropriateness and cost of provision in coming to funding decisions. For example, the reach of provision (eg where a setting is key for a disadvantaged or excluded community or children with special education needs) could be taken into account when deciding on the level of funding in the context of local priorities.

These issues are discussed further in the proposals for development of the early years funding system.

Current Early Years Funding System

193. Since 1997, the Government has been committed to offering universal free early education, based on clear evidence of its impact on children's development and achievement at key stage 1. Initially this was offered for four year olds, with the offer for three year olds implemented from 1999 through the Nursery Education Grant – ring-fenced funding to local authorities delivered through the General Sure Start Grant. After 2003, Nursery Education Grant was transferred into general local government funding, and distributed through Schools Formula Spending Shares. Along with all other funding for pre-16 education, this was in turn transferred into Dedicated Schools Grant (DSG) with effect from April 2006.

194. As the universal free entitlement has been implemented, so the pattern of provision has changed. In 2000, free early education was mainly offered in maintained nursery settings with only 12% of all children accessing the free entitlement in Private Voluntary and Independent (PVI) settings. The introduction of the Nursery Education Grant led to an increase in the use of the PVI sector to deliver the free entitlement, especially for 3 year olds: 41% of all children and 62% of three year olds now access the free entitlement in PVI settings. Overall take-up of the entitlement is high, but there is a significant gap in take-up between affluent and disadvantaged groups.

195. Funding for early education in **maintained settings** is part of a local authority's Individual Schools Budget (ISB), and is distributed through its school funding formula. Budgets for schools are finalised before the start of the financial year and are not then adjusted to reflect pupil number changes that take place during the year – and that also applies to changes in early years pupil numbers in maintained settings, and the funding generated by them.

196. While the pupil numbers used in school budgets cannot be amended after the start of a financial year, local authorities have a number of options as to how budgets are calculated.

- a. If local authorities use pupil numbers, they must use the numbers on roll at the January count date, but they may weight early years pupil numbers according to the following factors:
 - i) the exact age of the child when admitted to school; or
 - ii) the number of hours / sessions of attendance.
- b. Local authorities may also use place funding for children under 5 at maintained nursery or primary schools.
- c. Finally, where a local authority has three points of admission, they may adjust the January pupil numbers to reflect the additional pupils admitted for the summer term, by adding a number no greater than the number admitted at the start of the previous summer term.

197. A survey of 46 local authorities showed the following pattern of practice:

- 24 funded maintained settings on the basis of numbers of children at the time of the January pupil count;
- 12 funded on places;
- 6 used a combination of places and pupil numbers; and
- PVIs were usually funded on the actual provision taken up, broken down into sessions.

This suggests that many local authorities are not using the flexibilities for funding under 5 provision that are already available in the school funding system. This may be because there are practical barriers to implementing more sophisticated counting regimes in schools, such as concerns about consistency of data and additional bureaucracy.

198. The current arrangements also require local authorities to treat under-5 pupils in maintained schools in the same way as over-5 pupils so far as the rest of the local authority formula is concerned: they will attract additional funding according to their SEN or AEN status; and they will be taken into account for other factors based on pupil numbers – for example lump sums. There is however no requirement for a governing body to spend all the funding allocated on the basis of pupils in a specific year group or phase on those pupils.

199. Funding for **non-maintained settings** falls into each authority's central expenditure. While local authorities have considerable discretion over how they fund PVI settings, we have found that most have continued the funding practices they developed when funding was delivered through the Nursery Education Grant by uprating each year the amount per pupil delivered through that route. Many authorities have a single rate of funding for the whole PVI sector and do not differentiate between providers operating in different circumstances (eg those serving areas of high social deprivation).

200. Information about children under five attending PVI settings is collected through the Early Years Census, which takes place in January of each year and at present collects information at provider level. From 2008 this census will be collected at child level, and initial pilots are running in March 2007. In addition, most local authorities collect information on take-up of places in PVI settings through termly headcounts and use this to calculate funding levels. They also adjust funds in term if a child leaves a setting and calculate funding on the basis of the number of sessions that each child takes up.

Issues Raised by the Current System

201. We have identified four factors that may act as a barrier to local authorities, as they seek to offer the early years entitlement more flexibly, and in doing so, engage fully with all early years stakeholders.

- a. While there are flexibilities in the current funding system there may be practical barriers which prevent local authorities fully exploiting these, and in some instances awareness of how to do so may be limited. The Schools Census records children as either part time or full time, and many children in maintained settings are funded on this basis, regardless of how many hours of provision they actually take up. That may be because of concerns about the additional data gathering burden that funding on the number of hours taken up would impose on schools. Over the coming months we will gather more information about the practical barriers to implementing more flexible systems, and work through possible solutions with our external partners group,

the School Funding Implementation Group.

- b. Pupils in the maintained and PVI sectors are therefore counted and funded in different ways. This is likely to become increasingly problematic as the entitlement becomes more flexible. Where local authorities use only Schools Census data for funding maintained settings, a child will be funded for attending part-time (5 sessions), whatever the number of sessions (up to 9) they take. This constrains the splitting of funding between providers who combine to deliver more flexible provision: it either results in double funding - the school is funded for five sessions and a PVI provider for what the child takes up in addition; or, in some cases, local authorities do not allow children to divide their time between two providers.
- c. Where a child leaves or changes PVI provider in-year local authorities tend to claim back funding and re-allocate it accordingly, based on termly headcounts. For children in maintained settings this reallocation of funding does not take place, because budgets for schools are finalised before the start of the financial year and not updated for pupil number changes after that in order to deliver stable budgets for primary schools. Since parents are more likely to change their pattern of take-up from one term to the next when provision becomes more flexible, this may constrain local authorities' ability to respond to the drive towards increased flexibility.
- d. Finally, local decision making structures may not give adequate weight to the views of the early years sector. Evidence from the free entitlement pathfinder local authorities and the Childcare Implementation Project suggests that there are barriers to the early years sector influencing decisions at local level, both as to the level and distribution of funding between maintained and PVI providers. We also know that many Schools Forums do not have any early years representatives: that may in part be because of the challenge in identifying representatives of such a diverse sector. There may also be issues about the capacity of the early years sector to play a full part in discussions on funding and the development of new local funding systems.

Developing the Early Years Funding System

202. The proposals set out below are in four parts:

- two initial proposals, to be implemented for the coming CSR period, to bring the funding systems for maintained and PVI sectors closer together, by standardising the methods for calculating funding rates, and the calculation of pupil numbers between the two sectors;
- a proposal to bring the budget calculation arrangements in the two systems closer together;

- a more radical proposal for a single under 5s funding system in local authorities; and
- proposals for increasing the role and effectiveness of the early years sector in local decision making on funding issues, including a proposal to separately identify early years funding.

Proposal 1: Standardise the method for setting the per pupil levels of funding across maintained and PVI sectors.

203. Some authorities already have regard to their nursery class Age Weighted Pupil Units (AWPUs) when determining the PVI funding rate. However, in many authorities the levels of per pupil funding for PVI and maintained sectors have developed entirely separately. Under this proposal, each authority would be expected to consider the same set of factors in setting the level of funding per pupil for both sectors: this would allow any differences in per pupil funding between sectors to be justified.

204. There is no presumption that this proposal will lead to convergence between the level of PVI funding per pupil and the nursery class AWPU in each authority. There may be legitimate reasons to differentiate the level of per pupil funding between the sectors – they may for example have different cost bases and operate in different financial environments. If an authority needed to increase funding levels to implement this option and had insufficient funding to do so in one year, it would be necessary for the change to be introduced gradually, and planned in advance of each multi-year budget period. The Minimum Funding Guarantee would of course continue to apply to the budgets of nursery and primary schools as changes are introduced.

205. We believe that this proposal is a key element of bringing the funding systems for maintained and PVI settings closer together, and as such we are minded to propose that it should be introduced by all local authorities for the coming CSR period. However, in the light of the tight timescale for implementing three year budgets for schools in autumn 2007 we would welcome views from local authorities as to how long it might take them to work up, consult on and implement such a standardised method, and whether that would fit in with the timetable for implementation of multi-year budgets set out in Annex 1.

206. There are currently differences between the sectors in their adult: pupil ratio requirements although from September 2008 the introduction of the Early Years Foundation Stage will mean that requirements for PVI and maintained settings will be put on an even footing (1:13 in PVIs where there is a qualified teacher and/or early years professional).

207. If this proposal is adopted the Department would monitor progress in the same way it has used for the process of formula review local authorities have used for deprivation funding – see paragraphs 104 to 108.

Q27: Do you agree that local authorities should introduce a standardised method for calculating the unit of funding for early years

provision in maintained and PVI settings for the coming CSR period?

Q28: How long would it take local authorities to develop, consult on and implement such a standardised method?

Proposal 2: Apply consistent counting methods for pupil numbers in maintained and PVI settings

208. As set out above, many local authorities do not make use of the flexibilities that are currently available in the school funding system when allocating funding for early years provision. As a result, the funding allocated to children in maintained early years provision does not reflect the level of that provision as accurately as the sessional counts used in PVI providers.

209. The constraints on aligning at national level the counting systems in maintained and PVI settings for early years provision are set out in chapter 2, paragraph 54. The moratorium on changes to national data collection means that we will not be able to use sessional / hourly information in order to calculate allocations of DSG to local authorities for the coming CSR period. However, we will need to pilot changes to the national arrangements in 2009-10 if we are to implement them for the next spending review period from 2011-12 onwards – and we know that some local authorities do use sessional counts to fund maintained provision already. In the meantime, we will encourage all local authorities to start to use sessional / hourly data in calculating early years pupil numbers in their funding allocations for maintained settings from 2008-09 onwards.

Q29: Do you agree that local authorities should use the same methods to calculate pupil numbers in maintained and PVI settings for the coming CSR period?

Proposal 3: Bringing the budget calculation arrangements for maintained and PVI settings closer together

210. The single calculation point for school budgets, to give schools firm budgets that are finalised before the start of the financial year has worked well in respect of full time pupils aged over 5. As set out above, however, it may work less well for part time pupils who move between settings within the year, or who take up the free entitlement partly at a maintained and partly at a PVI setting throughout the year.

211. If we were to allow local authorities to recalculate school budgets in response to in year movements of pupils it would represent a significant shift for primary schools, risking significant instability in those schools with early years provision for whom finalising school budgets in advance of the financial year has worked well. The alternative would be to consider whether the arrangements for maintained settings could also apply to PVI providers, to help to bring the funding systems for maintained and PVI providers closer together and introduce more stability into the PVI funding system. Three options for early years provision delivered by PVI providers would be:

- a. Funding on places – this is simple from the point of view of the data required, and provides stability to all providers. The main disadvantage is that it would risk funding unfilled places and double counting adding to the cost of the system.
- b. Using termly estimates, with adjustments if actuals are more than a given percentage different. This would offer greater flexibility than option (a), but would still fund some unfilled places.
- c. Fund a guaranteed minimum number of pupils, and adjust numbers only in the event of higher numbers. As with option (b), this option seeks to offer more flexibility than option (a), while minimising the funding allocated in respect of unfilled places.

212. While each of these three options would bring the funding system for PVI providers closer to that for maintained schools, each would increase overall pupil numbers, which would affect the level of funding required or would lower the unit of funding available. However, taken together with the other proposals set out here (which might free up funding from better counting of children in maintained settings for example) this could be managed over time at local level. We would welcome views as to how this could be managed.

213. Changing the PVI budget setting system in the ways outlined could be used to help local authorities incentivise more flexible provision. More stable budgets for the year would benefit provider sustainability and, in return for that stability, all sectors would be expected to deliver more flexibly in response to parental demand.

Q30: Do you agree that we should retain a single budget calculation point for early years provision in the maintained sector?

Q31: Which of the options at paragraph 211, a-c, or an alternative approach, would improve the alignment of the funding systems for PVI providers and maintained schools and be achievable within funding constraints?

Proposal 4: Introducing a single formula at local level for funding all free entitlement provision.

214. The free entitlement is significantly different from the rest of the pre-16 education system: it is not compulsory, full-time provision delivered by a single institution; parents can access it in a number of different institutions, taking up as much or as little of their entitlement as they want. This proposal recognises that difference by enabling local authorities to fund free entitlement provision consistently across the whole sector.

215. Proposals 1 and 2 above would be necessary precursors to the development of a unified early years funding system, which would establish a single formula to fund all settings at local level. While such a formula would

be applied in both maintained and PVI settings, it would need to recognise any significant differences between the parts of the early years sector. Some of the key issues that would need to be worked through in establishing a single free entitlement funding formula are set out in the following paragraphs. An intermediate step on the way would be to introduce some of the key factors from the school funding system, for example factors to reflect social deprivation.

What factors to include

216. There is a wide variety of factors in use in local school funding formulae. The main groups of factors are, with some examples:

- a. Additional pupil-led funding for SEN and deprivation based on proxy factors, such as Free School Meals, English as an Additional Language, Index of Multiple Deprivation scores, SATs or other test data, mobility;
- b. Specific pupil funding relating to individual pupils - high cost SEN for pupils with statements; excluded pupils; children in care;
- c. Premises related - Floor area, grounds area, building conditions, energy consumption;
- d. Other specific factors (including protection factors) based on size, type, location or other factors which vary between schools within the local authority; and
- e. Actual Costs funding for rents, rates, and PFI.

217. Some of these – for example PFI factors - would clearly not be relevant to PVI providers, but in developing a new formula, local authorities would need to consider which was relevant, and how it could be used across the sector. An example of the sort of issues they would need to consider is provided by premises factors.

- a. Some providers are very small – the local authority would need to consider whether the additional complexity and the extra data requirements would be worthwhile for such providers.
- b. Where publicly funded provision is only a small part of a provider's whole operation - for example if a provider is an all age independent school or has extensive childcare provision – premises costs would have to be apportioned between the state funded free entitlement and the remainder of the operation.

Treatment of whole school factors

218. When sixth form funding was transferred to the Learning and Skills Council, the issue of funding for factors related to the whole school needed to be resolved. Funding for sixth forms, in common with all other funding from

the LSC is intended to cover the whole cost of provision – including those costs which relate to premises, leadership and so on. There would be a similar issue with the establishment within each local authority of a single funding formula for early years.

219. There are two ways in which this could be dealt with: the whole school factors provided through the existing school funding formula could be abated (as some authorities do for secondary schools with sixth forms); or the whole school factors from the existing primary school funding formula could be left in place, and funding for whole school factors omitted from the early years funding formula.

Transition

220. The introduction of a single funding formula would be bound to result in movements of funding between sectors, schools, and providers. It would be necessary to work up a strategy for managing this transition over a period of years, so that primary schools and providers continue to benefit from the stability of budgets of the last 4 years, while at the same time progress is made towards the single early years funding formula.

Q32: Would moving to a single formula for funding the free entitlement across maintained and PVI providers better enable local authorities to commission flexible provision?

Q33: If so, over what timescale would it be practical to implement such a formula?

Local Decision Making: Schools Forums

221. Schools Forums have been in place for 4 years: when they were set up they were purely consultative bodies; and the range of issues that they considered was not as wide ranging as it is now. The Every Child Matters agenda, the expansion of the free entitlement and the implementation of specialised diplomas all have implications for the school funding system. We therefore think that now is the right time to look again at the rules governing membership of Schools Forums to reflect this rapidly changing agenda.

222. The proposed changes to the membership of Schools Forums set out earlier in chapter 3, paragraph 140 to 142 are important in giving the early years sector a greater voice in shaping the funding system for the future. They will also reinforce and broaden the dialogue between schools and wider children's services on the shape of local provision. This will enable funding decisions to be taken in better knowledge of the wider context of activity to raise standards through the local authority's Children and Young People's Plan (to which schools must now have regard) as well as in turn influencing the development of the plan.

223. Schools Forums do not make decisions on the quantum of funding to be distributed for early years provision, or on the formula to distribute funding between early years and maintained settings, but they must be consulted on

these issues. Decision making remains the responsibility of local authorities, who are also responsible for formulating and putting forward proposals for change. We therefore need to go further than simply amending the way in which Schools Forums operate. We need to ensure that local authorities involve early years leads, and the early years sector more widely, as they develop funding proposals for early years provision, and not just when they are discussed at the Schools Forums. We also expect that local authorities will continue to develop the capacity of the early years sector to play a full role in developing proposals for change.

Q34: We would welcome views on whether further changes or guidance are needed to develop this wider function of Schools Forums in relation to the Every Child Matters agenda.

Separately Identifying Early Years Funding

224. As set out in paragraph 191, local authorities should ensure that they are funding the free entitlement appropriately. Improving the involvement of early years representatives in funding decisions will contribute to a more informed debate about funding levels, and the distribution of funding between maintained and PVI settings. But we could go further than this, and identify separately funding for the early years entitlement. This would work by identifying the total national amount of funding for early years within the Dedicated Schools Grant, and using a formula to break this down by local authority to give an indication of the amount of early years funding available in each area. That would allow local authorities to benchmark their expenditure on early years, enabling greater transparency in Schools Forum discussions on early years funding. We would welcome views on whether this would be a helpful addition to the local debate about early years funding.

Q35: Would separately identifying funding for the early years entitlement help local authorities to ensure that the free entitlement is funded appropriately?

CHAPTER 6: SPECIFIC GRANTS

This chapter sets out proposals for the further rationalising of specific grant streams, taking account of the following principles:

- a. stability and predictability for schools;*
- b. reflection of changes in need as well as pupil numbers; and*
- c. the flexibility to respond to new Ministerial priorities.*

The proposals are to: merge School Standards Grant and School Standards Grant (Personalisation) into a single grant; keep School Development Grant as a separate grant, but with the long term aim of merging it into Dedicated Schools Grant. To move towards that aim we propose to allow local authorities and Schools Forums more freedom on how to distribute the grant to their schools, to start to move SDG towards their local funding formula. The proposals include two options for the degree of freedom to be allowed.

Current Structure

225. The current structure of specific grants for 2007-08 is set out in detail in Annex 3. There are four main types of grant.

School Standards Grants (SSG and SSG (P)) - £1,060 million and £365million

226. These are paid to schools on formulae determined by the Department. The formula for the original (and larger) SSG consists of a lump sum per school and an amount per pupil with each school receiving an increase per pupil at the level of the secondary school MFG. SSG (P) is largely distributed on the basis of low prior attainment (50%) and deprivation (eligibility for free school meals, 35%), with 15% pupil led. Both grants can be spent on the purposes of the school (like the delegated budget) but also on extended services.

School Development Grant (SDG) - £1,450 million (main grant)

227. For 2007-08 SDG is mainly distributed on the basis of the allocation from the previous year, increased by the level of the secondary school MFG. Grant can be retained by local authorities for spending on central initiatives, but only up to the cash amount spent in the previous year, and only after the minimum increase for schools has been delivered. The centrally retained element will be part of Local Area Agreements (LAAs) from 2007-08 and can be used on any purpose that contributes to LAA outcomes.

228. The following elements of the grant are allocated according to a number of different formulae, and not on the basis of previous year allocations: Post Leadership Incentive Grant; Specialist Schools; Training

Schools; Leading Schools; and City Learning Centres. These grants together total £544 million.

Targeted Grants - £568 million

229. These are mostly allocated to local authorities by a formula determined by the Department, with the distribution to schools decided locally.

Local Authority Grants - £290 million

230. These grants can be spent in their entirety at local authority level, and are mainly allocated by a variety of formulae (the Music Services Grant is allocated on the basis of historic spend). These grants are not ringfenced for authorities rated as “excellent” in the Comprehensive Performance Assessment (CPA), and can therefore be spent on any local authority service.

Current Distribution

231. In order to formulate proposals for merging grants, we first need to map the distribution of the main specific grants distributed to schools. That allows us to determine which grants could feasibly be merged, and which grants have distributions that would make merging difficult or impossible in the short term without considerable turbulence. The graphs in Annex 4 show how the following 3 specific grants vary against their key distributional drivers, for all the schools in the five local authorities who took part in the School Level Modelling project¹⁷: School Development Grant (SDG)¹⁸; School Standards Grant (SSG); and SSG (Personalisation) (SSG(P)).

232. As expected, SSG shows the closest correlation with pupil numbers, and SSG (Personalisation) the closest correlation with low prior attainment. School Development Grant shows no clear correlation with pupil numbers.

Principles for Developing the Structure

233. There is broad consensus amongst central and local government, schools and other key stakeholders that further streamlining and simplification of specific grants is desirable. But in doing so, we should take account of the following principles:

- a. stability and predictability for schools;
- b. reflection of changes in need as well as changes in pupil numbers; and
- c. flexibility to respond to new Ministerial priorities.

234. Streamlining local authority grants will be taken forward in the context

¹⁷ Blackburn, Devon, Hackney, Leeds and Southampton local authorities took part in a project to determine the extent to which school budgets could be predicted by the Department, if it had detailed knowledge of their funding formulae, and the data driving them.

¹⁸ Main SDG does not include post-LiG, Specialist Schools, Training Schools, Leading Edge and City Learning Centres.

of the roll out of Local Area Agreements, and the proposals in the Local Government White paper¹⁹. The specific grants currently included in LAAs are set out in Annex 3. The DfES will continue to discuss with DCLG whether there is scope for more grants to be included in LAAs. The proposals for change in this document therefore deal with school level specific grants only.

Options for Change

235. The introduction of the Dedicated Schools Grant means that almost all funding for schools is routed through grants paid from the Department (or LSC for sixth form funding) to local authorities. That raises the question of whether there is a continuing justification for separate grants such as SSG, SDG and the other grants discussed earlier in this chapter.

236. We think there is a continuing justification for a grant paid on a national formula to all schools, separate from Dedicated Schools Grant. It allows Ministers to allocate additional funding directly to schools, to support specific activities such as personalisation and extended schools, secure in the knowledge that it will not only reach schools, but also in the amounts intended for each school. Keeping SSG separate from DSG also means that it can continue to be spent on extended services outside the scope of the delegated budget. This suggests we should consider two broad options for change:

- a. merging SDG, SSG and SSG(P) into a single grant stream, payable direct to schools on a nationally determined formula; or
- b. merging SSG and SSG(P), while keeping SDG separate.

In parallel with option (b) we would give local authorities the flexibility to move SDG towards a more needs based formula, with a view to merging it with Dedicated Schools Grant in the long term.

237. Under either broad option the long term architecture of the system would be the same: a single grant paid to local authorities, for them to fund schools' delegated budgets – the Dedicated Schools Grant; and alongside that a grant paid direct to schools on a national formula.

Merging SSG and SDG

238. Using data from the five local authorities who took part in the School Level Modelling project, we have created a single formula which performs two functions:

- a. it has features from the formulae for SSG and SDG - a lump sum for each school and units of funding per pupil, per FSM pupil and per low attaining pupil; and
- b. it minimises the differences at school level between the allocations from the single formula, and the existing SSG, SSG(P) and SDG allocations.

¹⁹ "Strong and prosperous communities" at: www.communities.gov.uk/index.asp?id=1503999

239. If the three grants were combined without any transitional arrangements, 41% of primary and 44% of secondary schools would lose grant as a result of the single formula. Some schools would lose appreciable amounts of funding: almost 3% of primary schools and over 7% of secondary schools would lose more than 3% of their total funding, as measured through budget share plus grants. If we wished to ensure that no school lost out when combining the three grants, the estimated national cost of a cash floor would be around £200 million. That strongly suggests that merging SSG, SSG (P) and SDG is not practical: it would either produce very considerable turbulence or be very expensive. It is very likely that merging these three grants into Dedicated Schools Grant, and then at local authority into local authority school funding formulae would be even more expensive or turbulent.

Merging SSG and SSG (P)

240. A single formula to distribute these two grants would have the same features as the formula in paragraph 238 above - a lump sum for each school and units of funding per pupil, per FSM pupil and per low attaining pupil. However, since the individual distributions are much less skewed than that for SDG, the pattern of differences between the single formula, and the separate allocations of SSG and SSG (P) is much less marked than that for the combined SSG/SDG grant.

241. If the two grants were combined without any transitional arrangements, 34% of primary and 38% of secondary schools would lose grant as a result of the single formula. However, only a very few schools would lose appreciable amounts of funding: around 0.1% of primary schools and 0.9% of secondary schools would lose more than 2% of their total funding, as measured through budget share plus grants. If we wished to ensure that no school lost out when combining the two grants, the estimated national cost of a cash floor would be approximately £30 million. In the light of the comparative levels of turbulence and cost of transition, we propose that we should merge SSG and SSG (P) from 2008-09, and ensure that no school loses out as we do so.

Changing the SDG Distribution

242. A significant proportion of SDG locks in historical distribution from 2003-04. If our long term aim is to merge SDG into Dedicated Schools Grant, local authorities will need to change its distribution formula at school level to move closer to their local funding formulae: this will also allow them to reflect the changing circumstances of schools. To this extent, fully merging SDG into DSG will depend crucially on satisfactory progress being made by local authorities on the distribution of funding for deprivation in their local funding formulae.

243. We propose two options to start to move SDG towards a formula which better reflects a local view of needs and priorities, while retaining the strong focus on deprivation that is characteristic of SDG.

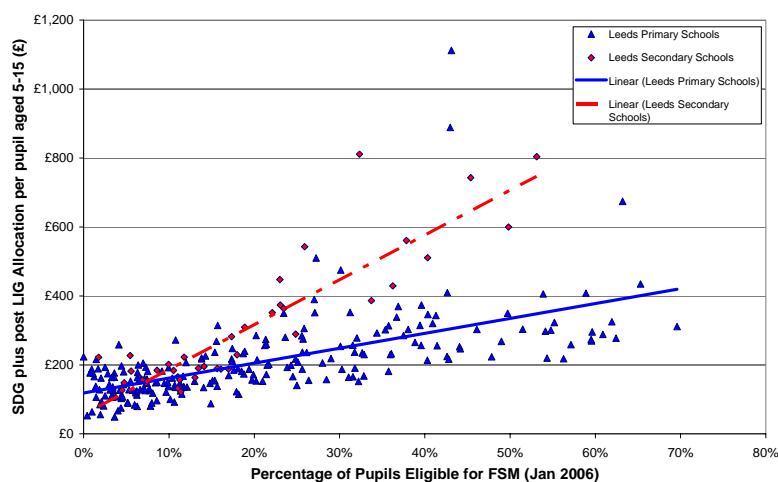
- a. Schools would be guaranteed an allocation of SDG in 2008-09

of at least the cash value of their allocation²⁰ in 2007-08 – a 0% floor. Local authorities and Schools Forums would then decide how to use any increase in SDG for 2008-09 and beyond to move towards a distribution in line with a local assessment of need. This option provides considerable stability of funding, while allowing some local flexibility to better reflect a local view of need. It would lock in a considerable amount of historical spending however.

- b. A variant of option (a) would be to ensure that no school lost more than a given amount of its 2007-08 SDG allocation – a small negative floor. This would allow for greater change to feed through into SDG allocations, but would limit reductions for individual schools to a level set by the Department.

244. Under either of these options, in order to guarantee a continued focus on deprivation, we would make it a condition of grant that local authorities and Schools Forums should take account of the overall funding position of schools in making changes to SDG distribution; and also that any new distribution of SDG continues to give as much weight to deprivation indicators as the current distribution does. We will monitor local authorities' distribution of SDG through the data they supply on their section 52 returns: where the data for 2008-09 or any subsequent year suggest that local authorities are moving away from the deprivation focus of the grant, they will lose the right to make further distributional change.

Graph 14: SDG per pupil vs Free School Meals % in Leeds in FY 2006-07



245. The graph above sets out, for one of the five local authorities in the school modelling project, how the distribution of SDG varies with Free School Meals. In introducing a new formula for distribution, local authorities would be required to maintain the differential in funding between the most and least deprived schools – so it would not be permissible to flatten the distribution of

²⁰ The baseline for this allocation would be each school's allocation of main SDG in 2007-08, plus (where relevant) its post-LIG funding stream. Schools in receipt of post-LIG transition grant would not see this added to their baseline, since its purpose is to manage their transition to a position where they do not receive LIG.

the grant.

Q36: Do you agree that we should merge SSG and SSG (P) from 2008-09?

Q37: In taking forward changes to the distribution of SDG over the period 2008-11, which method of transition would you prefer: (a) a cash (0%) floor; or (b) a floor slightly below 0%, to be set by DfES?

Specific Grants and Academies

246. Most specific grants²¹ are currently paid to academies through local authorities. The main reason for this approach was that the diversity of local formulae for specific grant distribution meant that it would be difficult for the Department to accurately replicate these payments.

247. However, the system is becoming increasingly bureaucratic, and we would welcome views as to whether we should introduce a simplified system in which payments are made by the Department, based on a formula to be determined by the Department.

Q38: Should we make payments of specific grants to academies from the Department rather than through local authorities from 2008-09?

²¹ SSG, SSG(P) and School Meals grants are already paid direct to Academies.

CHAPTER 7: HOW TO RESPOND AND FURTHER INFORMATION

How to respond to this consultation

248. The consultation response form is available at www.dfes.gov.uk/consultations/. It would be very helpful if you could complete your response on-line.

- If you are responding on-line, select the “respond on-line” option at the beginning of the consultation webpage:
www.dfes.gov.uk/consultations/.
- If you prefer you can
 - Email your completed response form to:
schoolfunding.consultation@dfes.gsi.gov.uk
 - Fax it to: 01928 794113
 - Post it to:

Department for Education and Skills
Consultation Unit
Area 1A
Castle View House
East Lane
Runcorn
Cheshire WA7 2GJ

249. The closing date for the consultation is Friday 1 June 2007.

Publication of results

250. An analysis of the responses will be placed on the TeacherNet website at www.teachernet.gov.uk/schoolfundingconsultation2007/ in the summer 2007.

How to order copies of the consultation document

251. You can download a copy of the consultation document (or individual chapters) from www.dfes.gov.uk/consultations/. Alternatively printed copies of the document may be requested by email from dfes@prolog.uk.com or by telephone on 0845 602 2260

If you have any questions about the proposals or would like to know more

252. If you would like to ask us about any aspect of the proposed funding arrangements, please email us at schoolfunding.questions@dfes.gsi.gov.uk. You can also find further information by visiting the school funding pages of TeacherNet at www.teachernet.gov.uk/schoolfunding/.

After the consultation

253. We will continue to work on the detail of the proposals with our partners, taking into account the views expressed in the consultation. Ministers expect to announce decisions on the key issues over the summer of 2007 in the light of the responses to the consultation and the outcome of the Comprehensive Spending Review 2007, in time for allocations of Dedicated Schools Grant for 2008 to 2010-11 to be made in the autumn of 2007.

Appendix C

GLOSSARY OF TERMS

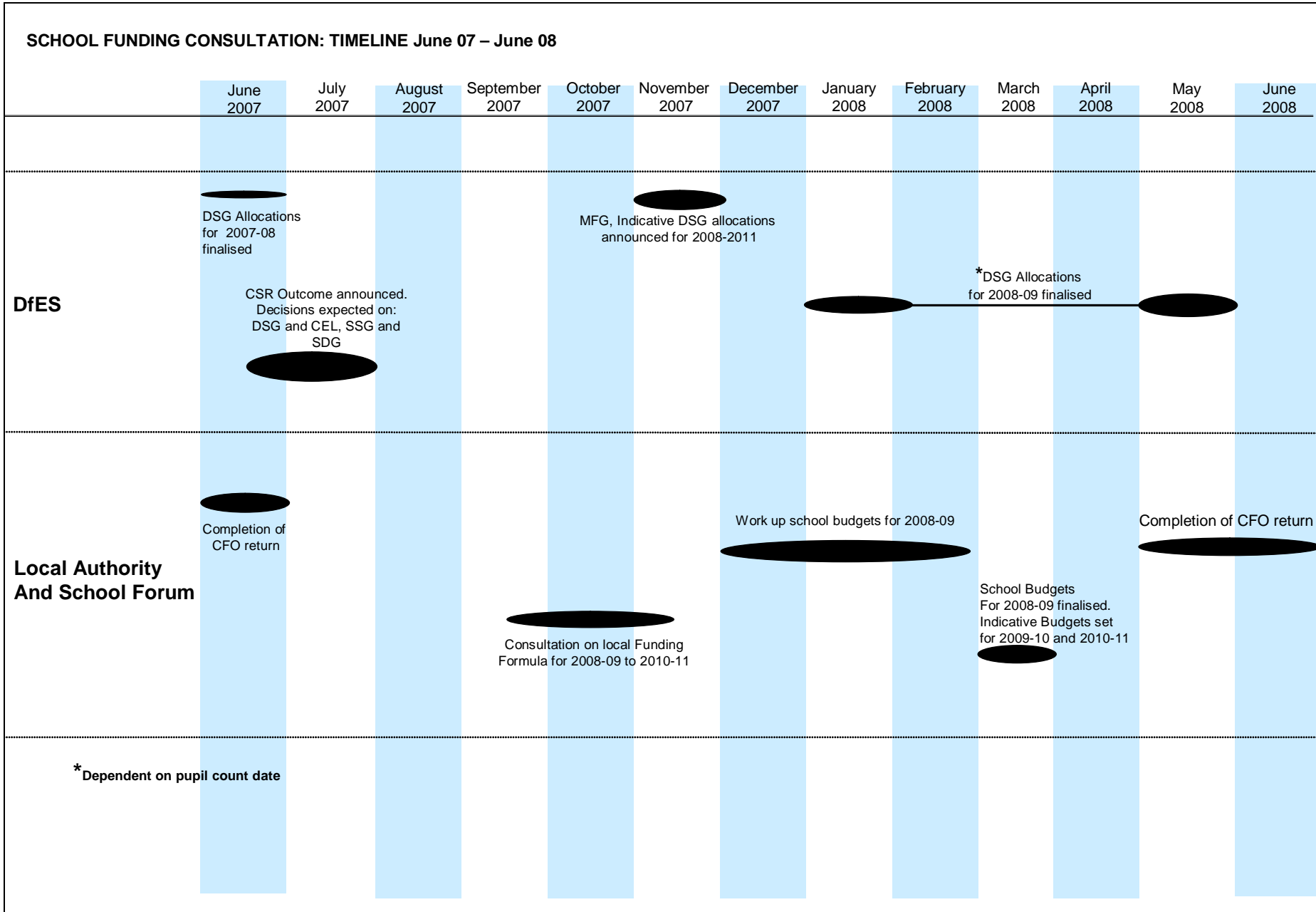
Term	Stands for	Description
ACA	Area Cost Adjustment	A factor used in the local government finance system (and in the Schools FSS formula) to reflect higher costs – mostly pay – in some local authority areas.
AWPU	Age Weighted Pupil Unit	A factor used in local authority funding formulae to distribute different amounts of funding for pupils of different ages.
CEL	Central Expenditure Limit	The maximum amount of expenditure that can be incurred on a local authority's budget for central items without the approval of the Schools Forum.
CPP	Centre for Procurement Performance	A group within the DfES responsible for encouraging and enabling better procurement practices across all educational sectors.
CSAs	Children's Services Advisors	Provide expert support to local authorities, Primary Care Trusts and their delivery partners on integrated children's services, in conjunction, where relevant, with Strategic Health Authorities.
CSR	Comprehensive Spending Review	The process by which expenditure levels are set for Government departments for multi year periods
CTC	Child Tax Credit	Income-related support for children and for 16-19 year olds in education or approved training through a single tax credit, payable to the main carer.
DCLG	Department for Communities and Local Government	The central government department responsible for the distribution of (non-schools) grant funding to local authorities.
DSG	Dedicated Schools Grant	The ring-fenced grant from DfES to local authorities covering funding delegated to schools, and other provision for pupils such as Pupil Referral Units and early years education in Private, Voluntary and Independent settings.
ECM	Every Child Matters	The government programme to provide effective and accessible services integrated around the needs of children, young people and families.
EYC	Early Years Census	The annual collection of information from each local authority on pupils accessing the free entitlement in private, voluntary and independent settings.

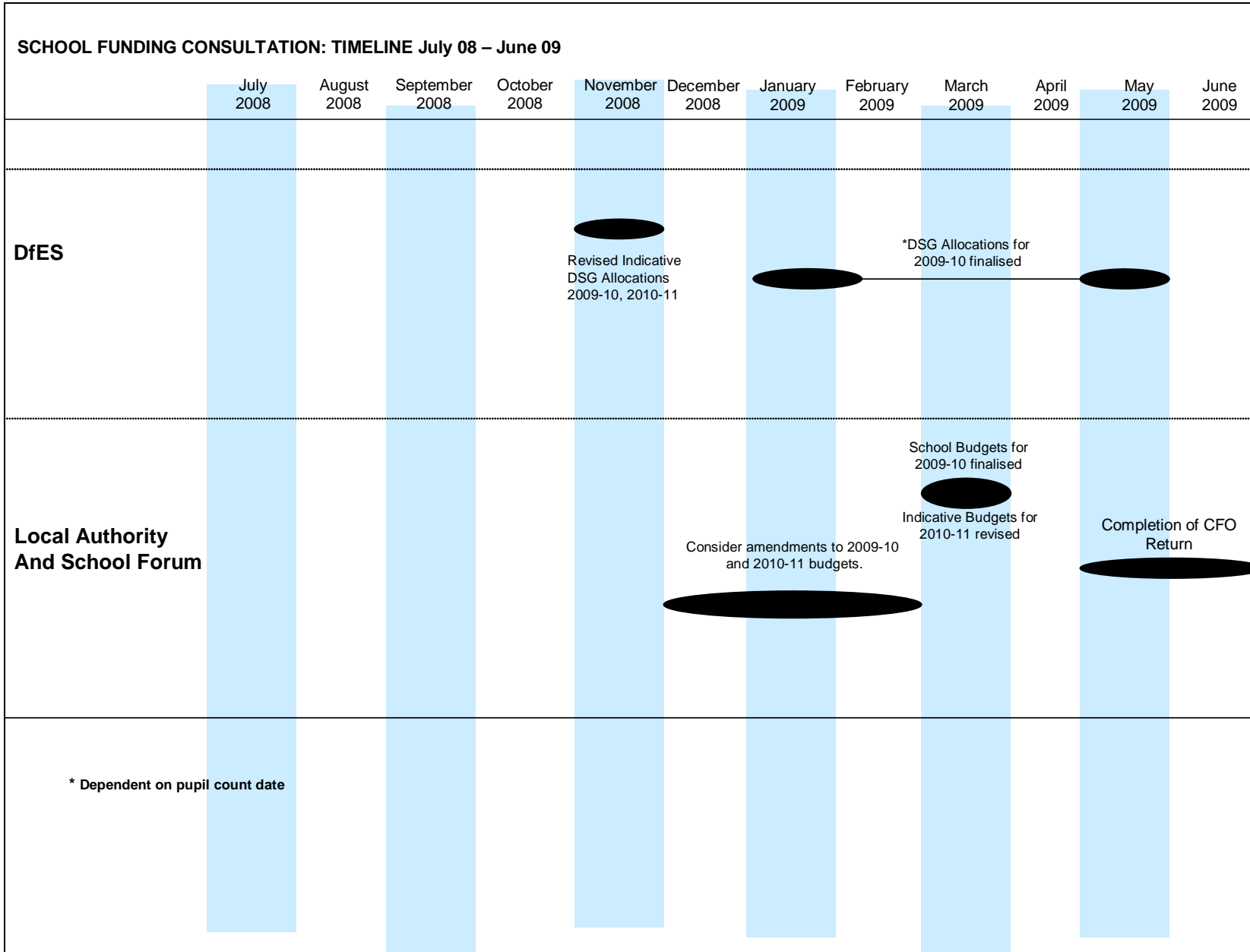
Appendix C

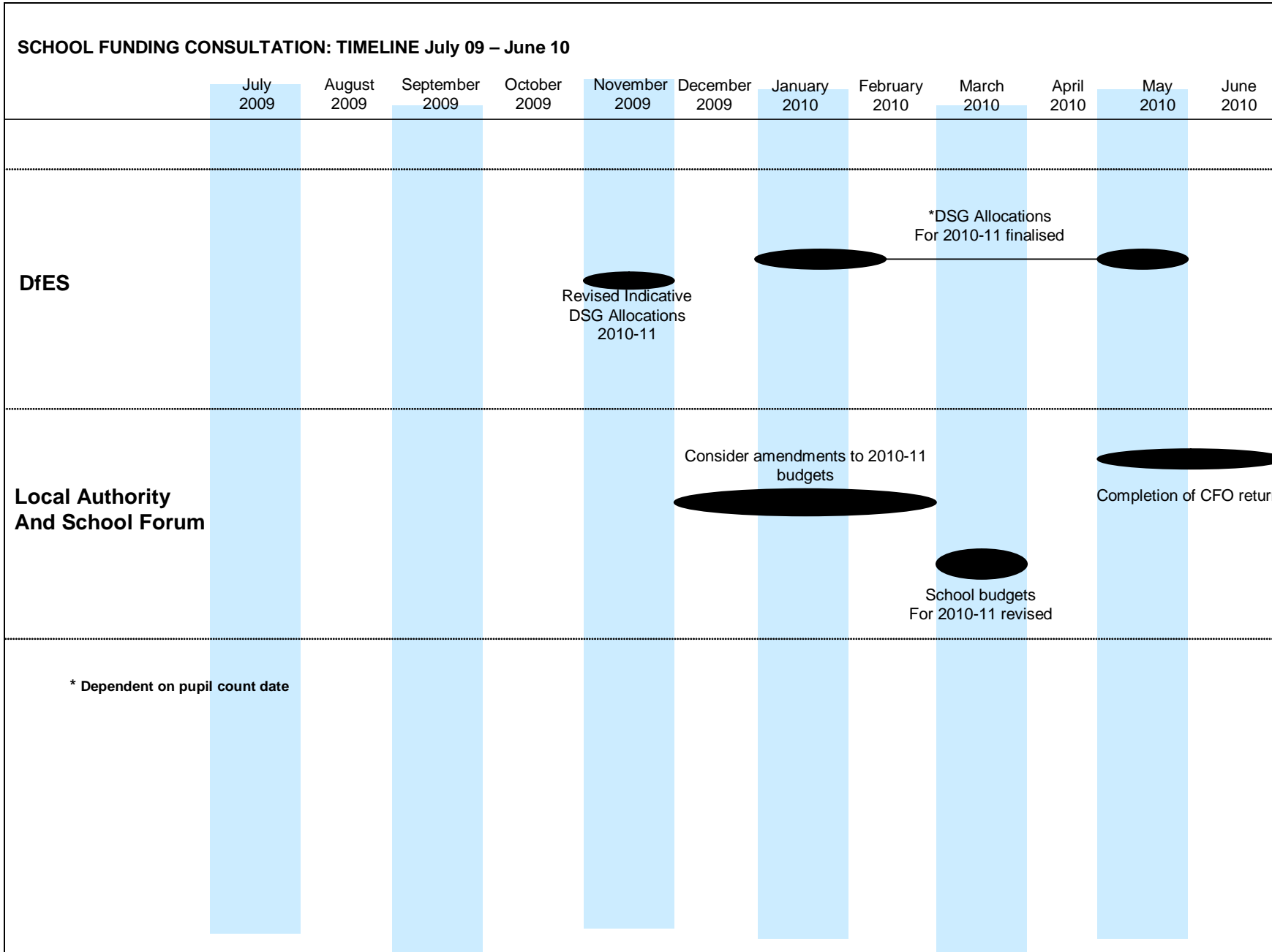
Term	Stands for	Description
Form 8B		The data return used by DfES to collect information on pupils for whom an authority is financially responsible who are educated outside maintained schools.
FSM	Free School Meals	Commonly used as an indicator of deprivation. Children are eligible if their parent or guardian: receives Child Tax Credit but not Working Tax Credit; and has a family income for tax credit purposes at or below a certain level.
FTE	Full Time Equivalent	DSG funding is based on the number of full-time equivalent pupils. Where a pupil is not in full time education the purpose is to reflect the amount of provision they are taking up for funding purposes.
IMD	Index of Multiple Deprivation	An index of deprivation compiled from data in seven domains relating to: income; employment; health and disability; education, skills and training; barriers to housing and services; living environment; and crime.
IS	Income Support	A means tested benefit for people who are not registered as unemployed and are looking for a job.
ISB	Individual Schools Budget	The sum of the delegated budgets of all schools in a local authority.
LAA	Local Area Agreement	Sets out the priorities for a local area agreed between central government and a local area (the local authority and Local Strategic Partnership) and other key partners at the local level.
PLASC	Pupil Led Annual Schools Census	Used by the department to collect information from each local authority on pupils attending schools and Pupil Referral Units maintained by the authority.
PVI	Private, Voluntary, Independent	The different categories of childcare providers other than those in the maintained sector.
SDG	School Development Grant	A grant to be spent by schools and local authorities on any purpose to raise the standards of teaching and learning. Incorporates several previously separate grants in a single funding stream.

Appendix C

Term	Stands for	Description
SFSS	Schools Formula Spending Share	One of several formulas used up until 2005-06 within the local government finance system to calculate Revenue Support Grant allocations.
SSG SSG (P)	School Standards Grant School Standards Grant (P)	Paid to schools on a national formula. The grants can be spent on any purpose of the school and on community facilities in support of extended services.
STRB	School Teachers Review Body	The independent body that makes recommendations to the Secretary of State and the Prime Minister on matters relating to the remuneration of school teachers in England and Wales and certain conditions of their employment.
WFTC	Working Families Tax Credit	The predecessor to WTC and CTC.
WTC	Working Tax Credit	A tax credit which provides support for in work families on low incomes, with or without children.







Timetable for DSG and Specialised Diplomas

Date	Diploma Decision	Dedicated Schools Grant Decision	14-16 Funding Decision
March 2007	Gateway results for 1 st wave announced (A)		
July 2007	Gateway results for 1 st wave announced (B)		
Autumn 2007		Indicative DSG allocations announced for 2008-2011	14-16 funding for 2008-09 announced on basis of 1 st Gateway process
January/February 2008		DSG Allocations for 2008-09 finalised (S)	
March 2008	Gateway results for 2 nd wave announced (A)		
May/June 2008		DSG Allocations for 2008-09 finalised (J)	
July 2008	Gateway results for 2 nd wave announced (B)		
September 2008	1 st wave of five diploma lines start		
Autumn 2008		Indicative DSG Allocations for 2009-10 updated	14-16 funding for 2009-10 announced on basis of 2 nd Gateway process
January/February 2009		DSG Allocations for 2009-10 finalised (S)	
March 2009	Gateway results for 3 rd wave announced (A)		
May/June 2009		DSG Allocations for 2009-10 finalised (J)	

Date	Diploma Decision	Dedicated Schools Grant Decision	14-16 Funding Decision
July 2007	Gateway results for 3 rd wave announced (B)		
Autumn 2009		Indicative DSG Allocations for 2010-11 updated	14-16 funding for 2010-11 announced on basis of 3rd Gateway process
September 2009	2 nd wave of further five diploma lines starts		
January/February 2010		DSG Allocations for 2010-11 finalised (S)	
May/June 2010		DSG Allocations for 2010-11 finalised (J)	
September 2010	3 rd wave of final 4 diploma lines starts		

Notes

1. There will be two sets of results announced for each gateway. The first announcement - labelled (A) in the table - will be for those consortia who have passed through the gateway at the first attempt. The second announcement will be for those consortia who have been given an additional three months to bring their bids up to the standard required to pass through the gateway.
2. Two alternative dates are given for the finalisation of DSG allocations. The first, in January/February – labelled (S) in the table - is the date for finalisation if pupils are counted for DSG allocations in September or October. The second, in May/June – labelled (J) in the table – is the date for finalisation if pupils are counted for Dedicated Schools Grant allocations in January.

**Specific Grants structure 2007-2008:
Recurrent Grants only**

	Value (£m)	Ring-Fenced at School Level	Ring Fenced at LA level?	Devolved to schools or LA retained	Basis of allocation	Entitlement for all schools or targeted?
School Standards Grants						
School Standards Grant	1,060	No	n/a	Fully devolved	Formula	All
School Standards Grant (Personalisation)	365	No	n/a	Fully devolved	Formula	All
School Development Grant						
Main School Development Grant	1,450	No	Yes (LAA)	Mainly devolved. Some LA retention	Spend plus	All
Post-LIG Funding	148	No	Yes	Fully devolved	Formula	Targeted
Specialist Schools	350	No	Yes	Fully devolved	Formula following DfES designation	Targeted
Leading Schools	11	No	Yes	Fully devolved	DfES designation	Targeted
Training Schools	10	No	Yes	Fully devolved	DfES designation	Targeted
City Learning Centres	25	Yes	Yes	Some devolution. Some LA retention	DfES designation	Targeted
Targeted Grants						
Ethnic Minority Achievement (EMAG)	181	Yes	Yes	Mainly devolved. Some LA retention	Formula	Targeted
Targeted Improvement Grant	5	No	Yes	Mainly devolved. Some LA retention	Formula	Targeted
Extended Schools	76	No	Yes (LAA Op)	Mainly devolved. Some LA retention	Formula	Targeted
Targeted Support for Primary Strategy	140	No	Yes	Mainly devolved. Some LA retention	Formula	Targeted
Targeted Support for Secondary Strategy	105	No	Yes	Mainly devolved. Some LA retention	Formula	Targeted
Aimhigher	30	No	Yes	Mainly devolved. Some LA retention	Formula	Targeted
Fresh Start and New Partnerships	8	No	Yes	Mainly devolved. Some LA retention	Targeted	Targeted
Music at Key Stage 2	23	No	n/a	Fully devolved	Formula	All schools with KS2 pupils
Local Authority						
Primary Strategy: Central Co-ordination	55	n/a	Limited virement (LAA)	Spent at LA level	Formula	n/a
Secondary Strategy: Central Co-ordination	60	n/a	Limited virement (LAA)	Spent at LA level	Formula	n/a
Secondary Behaviour and Attendance	14	n/a	Limited virement (LAA)	Spent at LA level	Formula	n/a
Education Health Partnerships	11	n/a	Limited virement (LAA Op)	Spent at LA level	Formula	n/a
School Improvement Partners	7	n/a	Yes (LAA Op)	Spent at LA level	Formula	n/a
Music Services	61	n/a	Yes	Spent at LA level	Based on historic spend	n/a
School Travel Advisers	7	n/a	Yes (LAA)	Spent at LA level	Formula	n/a
Choice Advisers	6	n/a	Yes	Spent at LA level	Formula	n/a
Study Support: Quality Development Programme	1	n/a	Yes	Spent at LA level	Formula	n/a
Playing for Success	10	n/a	Yes	Spent at LA level	Targeted	n/a
London Challenge	16	No	Yes	Spent at LA level	Targeted	n/a
School Intervention Grant	15	n/a	No	Spent at LA level	Formula	n/a
Flexible 14 to 19 Partnerships Funding	15	n/a	No	Spent at LA level	Formula	n/a
Local Authority Pilots						
14-19 Engagement Programme	5	n/a	Yes	Spent at LA level	Targeted Pilot	n/a
Home Access Initiative: Recurrent	5	n/a	Yes	Spent at LA level	Targeted Pilot	n/a
School Workforce Data Collection Pilot	2	n/a	Yes	Spent at LA level	Targeted Pilot	n/a
School Meals (ending in 2007-2008)						
Devolved School Meals Grant (ends in 2007-2008)	30	No	n/a	Fully devolved	Formula	All
Targeted School Meals Grant (ends in 2007-2008)	50	Yes	Yes	Mainly devolved. Some LA retention	Formula	Targeted

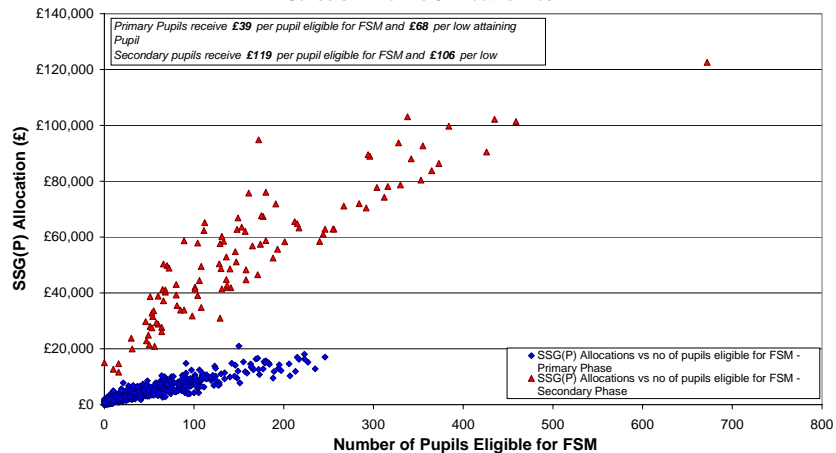
Notes:

Figures rounded to the nearest £1m.

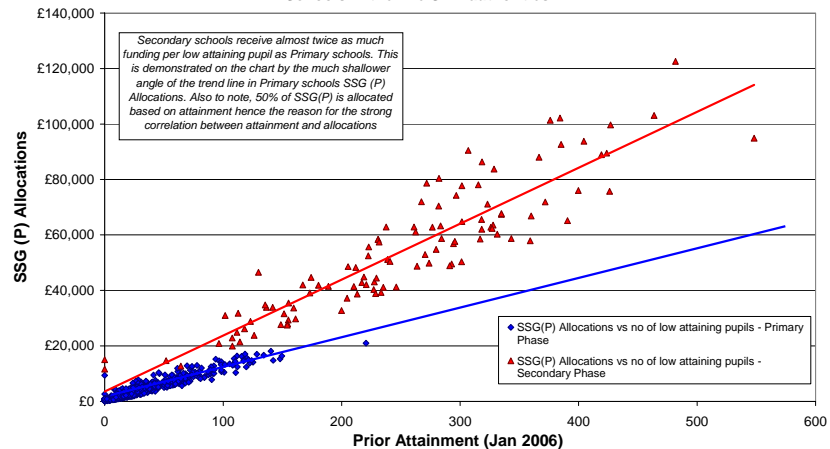
(LAA) means the grant is automatically pooled as part of a Local Area Agreement

(LAA Op) means the grant can be pooled optionally as part of a Local Area Agreement on a case by case basis.

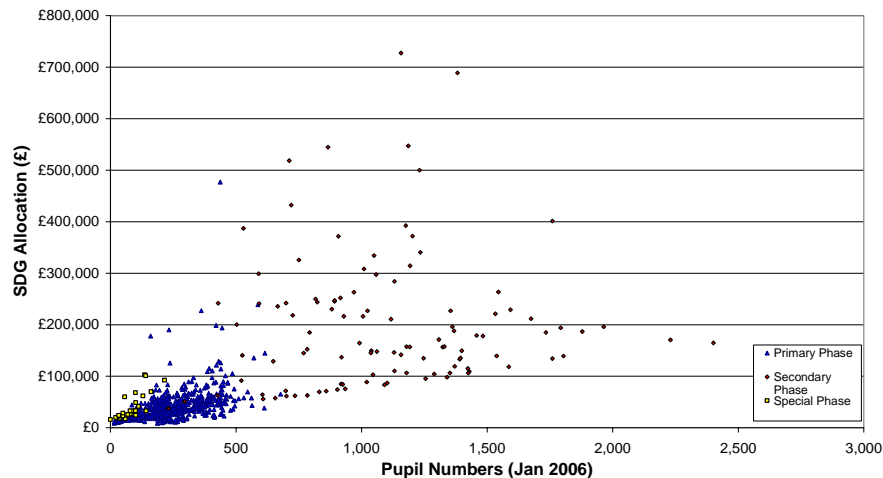
SSG(P) Allocations vs number of pupils eligible for FSM in Primary and Secondary Schools in the five SLM authorities



SSG(P) Allocations vs Number of Low Attaining Pupils for Primary & Secondary Schools in the five SLM authorities



SDG Allocation vs Pupil Numbers for All Phases in the five SLM authorities



SSG Allocations versus Pupil Numbers in the Primary & Secondary Phases

