

**SCHOOL AND EARLY YEARS FUNDING ARRANGEMENTS
2008-11**

Explanatory note for local authorities

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School Funding Unit

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1. Introduction

1. In March 2007 the Department for Education and Skills published a consultation document on the arrangements for schools, early years and 14-16 funding that will apply from April 2008. This explanatory note gives further detail on these arrangements, decisions on which were announced to Parliament on 25 June.

2. In reaching decisions on how the new arrangements should operate, Ministers have taken into account responses to the consultation document and the technical work that we have undertaken with national partners on the School Funding Implementation Group and its sub groups. We are grateful to those who took the time to respond to the consultation document and who contributed to the detailed technical work.

3. The decisions announced on 25 June covered the following six main areas:

- the distribution of the **Dedicated Schools Grant** (DSG) to local authorities;
- refinements to the way local authorities fund schools, ready for the introduction of **three year school budgets** from April 2008;
- development of the funding arrangements for early years education to support the extension to 15 hours and increased flexibility of the **free entitlement to early years education** and care from 2010;
- funding arrangements to support the introduction of the entitlement to **diplomas at key stage 4**;
- changes in the membership of **Schools Forums**, to put them in the best possible position to support the programme of changes to school funding – particularly for early years and 14-16 provision; and
- changes to **specific grants**.

4. Details of the changes to the arrangements for funding at 14-16 were set out in the statement¹ on the 14-19 reform programme issued by the Department on 9 August. That statement brought together the decisions taken in response to the schools, early years and 14-16 funding consultation, and the joint DfES/LSC consultation – “Delivering World-class Skills in a Demand-led System”. This explanatory note covers the 5 other areas.

¹ This can be accessed at: www.teachernet.gov.uk/schoolfunding2008to11/

Consultation on Formula Review Terms of Reference

5. While Ministers have decided to use the spend plus methodology to distribute DSG for 2008-11, the long-term aim is to move back to a single, transparent formula. A major formula review was launched on 2 August, the aim of which is to develop a single formula which will be available for use in the DSG distribution from 2011-12. We would welcome comments on the terms of reference for the review², with a closing date of 2 November.

Next Steps

6. The next key milestone in the implementation of the arrangements for 2008-11 will be the school funding settlement in October. At that time we will set out the level of the Minimum Funding Guarantee, details of the funding for Ministerial priorities, how that funding is to be distributed, and allocations of Dedicated Schools Grant, School Standards Grant and School Development Grant for the next three years.

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² Available at: www.teachernet.gov.uk/DSGformulareview/

2. Dedicated Schools Grant

A. Scope and Use

7. The scope of Dedicated Schools Grant will remain unchanged for the CSR period. It will provide funding for, and must be spent on, an authority's Schools Budget, which covers the delegated budgets allocated to individual schools, and also other educational provision for children which local authorities fund centrally, such as some Special Educational Needs provision, Pupil Referral Units and early years provision in Private, Voluntary and Independent settings. There will be no change to the general formal conditions applied to the DSG: local authorities must use the grant in support of the Schools Budget; and the provision for the Secretary of State to recover grant in exceptional circumstances remains. We will consider imposing further conditions of grant on authorities which fail to make sufficient progress towards adequately reflecting the deprivation funding in DSG in their local formula.

8. From 2008, it will be more straightforward for local authorities to combine funding from the centrally retained part of the Schools Budget with funding from budgets of other local authority services and other agencies. In approving proposals of this sort, the Schools Forum will no longer have to apply the test that educational benefit must be proportionate to the contribution from the Schools Budget; there will still have to be an educational benefit, however. Further details are at paragraphs 49 to 51.

9. The DSG is first and foremost a revenue support stream for schools' recurrent expenditure, not support for capital expenditure, for which there are other arrangements. However, there are three issues relating to the funding of capital projects and the DSG that we are taking this opportunity to clarify: PFI costs; prudential borrowing; and borrowing costs more generally. The arrangements for charging Capital Expenditure from the Revenue Account (CERA) to the Schools Budget remain unchanged.

10. Although PFI costs take the form of a unitary charge, they arise from two sources: the capital costs of building and the continuing costs of facilities management. The grant provided by Communities and Local Government is designed to cover the capital costs. In so far it does not do so, for example because the final specification of the school has exceeded what can be covered by the PFI credits, the additional cost should not be charged to DSG or the Schools Budget. But the continuing costs which arise from facilities management are a legitimate charge against DSG and the Schools Budget. The School Finance Regulations allow authorities to have a formula factor for these payments, which should be handled as part of the relevant school or schools' budget share.

11. The regulations governing the definition of the Schools Budget allow for servicing the costs of a prudential borrowing scheme in limited circumstances. In summary this flexibility is limited by the following conditions:

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- a. any scheme funded from the Schools Budget must start to generate annual savings to that budget which are greater than or equal to the annual charge on the schools budget within a reasonable period (we suggest five years), and the impact on the Schools Budget over the duration of the prudential borrowing should be at worst neutral; and
- b. the local authority must secure Schools Forum approval for the scheme.

12. A number of authorities have asked whether it is permissible to go beyond this and charge borrowing costs more generally to the Dedicated Schools Grant. The definition of the Schools Budget specifically excludes the costs of supported borrowing, other than under the exception described above, and it is therefore unlawful for these costs to be charged to the DSG.

B. Calculation of DSG Allocations

13. Ministers have decided that DSG will continue to be allocated for 2008-11 by the spend plus methodology. This will function in broadly the same way as for the past two years:

- a. the baseline will be local authorities' DSG guaranteed unit of funding per pupil for 2007-08;
- b. all authorities will receive the same basic percentage increase per pupil as an addition to this baseline; and
- c. the remaining funding will then be distributed for Ministerial priorities according to other formula based criteria.

14. The basic per pupil increase in the DSG will be equal to the level of the MFG for that year, plus an addition – described as “headroom” – to enable authorities to implement the MFG. This additional funding is necessary to fund the increased per pupil costs of falling rolls, and the increased costs of items excluded from the MFG calculation such as high cost SEN, rent, rates and PFI payments. We will not be announcing the level of the MFG until autumn, but the levels of headroom for each year have already been announced: 1% for 2008-09; and 0.8% for 2009-10 and 2010-11. So each authority's percentage basic increase in DSG will be:

2008-09	MFG + 1% per pupil
2009-10	MFG + 0.8% per pupil
2010-11	MFG + 0.8% per pupil

15. The calculation of DSG allocations is a two stage process: the first stage uses DCSF projections of pupil numbers at local authority level; in the second stage, DSG allocations are finalised using actual January pupil numbers. The process will operate as follows for 2008-09:

- a. each authority's DSG guaranteed unit of funding for 2007-08 will be uprated by the basic increase, with pupil number changes taken into account as measured by the change from actual January 2007 to estimated January 2008 pupil numbers;
- b. to this will be added funding for each of the Ministerial priorities, each distributed according to a separate formula, to give an overall indicative allocation of DSG for 2008-09;
- c. this indicative allocation will be divided by estimated January 2008 pupil numbers to give the Guaranteed Unit of Funding for 2008-09 (this figure will not subsequently change);
- d. when final January 2008 pupil numbers are available in late May/early June, the DSG Guaranteed Unit of Funding will be multiplied by them to give an authority's final allocation of DSG for 2008-09.

16. Guaranteed units of funding for 2009-10 and 2010-11 will be calculated as at steps (a) to (c) above, with the DSG guaranteed unit of funding for 2008-09 as the baseline for 2009-10 DSG indicative allocations, and the 2009-10 DSG guaranteed unit of funding the baseline for 2010-11 DSG allocations. DSG allocations for 2009-10 and 2010-11 will be finalised in June 2009 and June 2010 respectively, as at step (d) above. The Ministerial priorities for each of the next three years, and the formulae used to distribute funding for them, will be announced in autumn 2007.

C. Timing of Pupil Counts and Finalising DSG

17. The pupil counts used to calculate DSG for 2008-11 will remain at January: so for 2008-09 allocations of DSG we will use January 2008 pupil numbers, and so on. The main reason we did not go ahead with using an autumn count was that there is as yet no such count for pupils outside maintained schools or under compulsory school age, and therefore it would mean using more out of date data for such pupils.

18. This will mean that, as now, local authorities will not know their final allocations of DSG until early June. When setting school budgets, they will therefore need to continue to make estimates of their final pupil numbers, using data from the September pupil count, but also early intelligence on the January count. It is clear that local authorities have had far fewer problems in estimating their final allocations of DSG for 2007-08 than they had in 2006-07: the Department has received far fewer queries about the pupil counts themselves; and feedback from local authorities has been that the great majority have predicted their final DSG allocations with a good degree of accuracy.

19. In the longer term, the best solution to this problem may be to count all pupils in the autumn and base DSG allocations on that count: that would allow DSG allocations to be finalised before the start of the financial year. To introduce this change for the 2011-12 financial year, we would need data for autumn 2009, as well as for autumn 2010: that will allow us to iron out any problems with the autumn count ahead of its use

in actual DSG allocations; and it will also allow us to determine the impact on local authority allocations of DSG before the new pupil count is introduced. The long lead-in times for changes to the data collection arrangements mean that we need to start the planning process now, so this issue will be one we consider early in the review process.

D. Under 5 Pupil Numbers and DSG

20. The current system of counting children under 5 for the purposes of allocating DSG is a hybrid: children in maintained settings count as 0.5 or 1 fte; whereas children attending Private, Voluntary and Independent (PVI) settings count from 0.1 to 1.0 fte, proportional to the number of sessions they take up.

21. Guidance on our programme of reforms to early years funding at local level is set out in chapter 4 of this document. One of the key milestones is the introduction at local level from 2009-10 of a consistent method of counting and funding children in maintained and in private, voluntary and independent settings. From 2009-10 onwards, the presumption will be that, at local level, funding for children under 5 in maintained settings is calculated on the basis of provision taken up, rather than places, as now. That will bring maintained settings into line with PVI settings, and it will require local authorities to collect more detailed data on the provision taken up by all children under 5 in maintained settings from January 2009. Authorities are also being encouraged to fund maintained settings and PVIs under a common formula from 2009-10, and this will be required from 2010-11.

22. The Department is working with local authorities to introduce changes to the Schools Census from January 2009. Starting in January 2008, we will be piloting in a number of authorities the collection through the Pupil Led Annual Schools Census (PLASC) of data on the level of provision taken up by children in maintained settings. From the January 2009 Census this will be rolled out to all authorities, so that they have the data they need to fund maintained settings on the same basis as PVI settings. The change to a count based on the level of provision taken up will lead to changes in the pupil numbers used for funding purposes, and we set out in chapter 5 what arrangements local authorities can use at local level to manage the transition from the old to the new counting method.

23. If we used the pupil numbers from the new counting method in DSG allocations for 2009-10, it is highly likely that there would be significant changes to the pupil numbers of some authorities, and hence to their DSG allocations – and that would undermine the stability and predictability of three year allocations of DSG. It would be possible to adjust the DSG guaranteed unit of funding (GUF) to avoid large changes in DSG allocations, but this could only be done for 2010-11:

- a. each local authority's final DSG allocation for 2009-10 would be divided by the pupil numbers for that year on the new basis, to give a revised DSG GUF for that year;
- b. that revised DSG GUF would be used as the basis for an authority's DSG

allocation for 2010-11, with pupil numbers calculated on the new basis.

24. We have decided not to adopt this approach, since it would undermine the predictability of DSG GUFs for each of the three years 2008-11 that remain fixed at the levels announced in October 2007. We will therefore use the existing method of counting pupils for DSG purposes for all three years 2008-11.

E. Academies Funding and DSG

25. For new academies that are established from April 2008, the amount of DSG deducted from a local authority's allocation will be based on the recoupment model. No change will be made in respect of existing academies. More detailed guidance on the precise methodology to be used will be made available at the time of the school funding settlement, but we expect the process to be, in outline for 2008-09:

- a. Local authorities will calculate the budget for a school that is becoming an academy as part of their budget setting process for all of their schools by March 2008. For academies that start in September or January, the authority will need to carry out this work anyway to give the school a budget for the 5 or 9 months for which it maintains the school. For academies that start in April, the authority will need to generate a budget for the recoupment process, even though it will not be maintaining the school during that year.
- b. The local authority will notify the DCSF of this budget through its section 52 statement, and the Department will carry out a rough sense check of the budget before the authority's DSG allocation is finalised in June 2008. The relevant proportion of the budget – all for an April start, 7/12 for a September start, or 3/12 for a January start – will then be deducted from the authority's DSG allocation.
- c. The DCSF will replicate the school's budget in detail later in the year, as the first stage in setting the academy's actual funding for the academic year which begins 17 months after the financial year in question. If that requires there to be any adjustment to the level of the deduction from the local authority's DSG allocation, that can either be made before the October adjustment to DSG payment profiles, or by a change to the final DSG payment for 2008-09 in March 2009.

26. The local authority will also be asked to calculate the local authority central support grant (LACSEG) for the period from conversion to the end of the financial year. This is a per-pupil grant based on the authority's central spend as recorded in Table 1 of the section 52 statement, and the Department will supply an Excel model for the calculation. The LACSEG amount will be added to the budget share to produce the total DSG deduction.

27. The process will be the same for new academies that commence in 2009-10 and

2010-11. For academies that are in their second and third year of operation in those years the local authority will need to calculate the budget that it would have allocated to those schools if they were still maintained. Where that calculation needs updated data – for example on free school meals, or revised floor area – the Department will ensure that the local authority has this data by February in advance of the coming financial year.

28. We should emphasise that the introduction of the recoupment model changes the way in which DSG will be adjusted for academies, not the way in which academies themselves are funded. Academies will continue to be funded by the DCFS on an academic year basis, using the authority's formula for the previous financial year on a lagged basis. The extra information we shall get from authorities will make this process easier but will not replace it. The aim of introducing the recoupment model is to make the adjustment to DSG much closer to the real cost to the local authority.

29. The use of the recoupment model for new academies will mean that local authorities' DSG allocations will incorporate funding for the costs of individually assigned resources for pupils with SEN at those schools: the reduction in their DSG allocation is the budget they would have paid the school, and not the DSG GUF multiplied by pupil numbers for the school. For academies that opened before 2008-09, the reduction in the authority's DSG has been made on the basis of the DSG GUF and the academy pupil numbers: any pupils with individually assigned SEN resources at such academies should be included on the authority's Form 8B return, so that the authority receives a DSG guaranteed unit of funding for them.

30. The effect of the creation of academies on the central expenditure limit will not be taken into account in the School Finance regulations, since that would over complicate them. Authorities should explain to their Schools Forums the effect the creation of academies has on the ISB, on central expenditure and on the comparative growth rates of the two components.

F. Reflecting Deprivation in DSG Allocations

31. The schools, early years and 14-16 funding consultation sought views on the use of geographically based indicators such as ACORN and MOSAIC, to reflect deprivation in the distribution of DSG. While many consultees were in favour of geographical indicators of deprivation, there was concern at the lack of transparency of such indicators as ACORN and MOSAIC.

32. After the consultation commenced, HMRC published data drawn from the Tax Credit system. It contained data on finalised awards of Child Tax Credit and Working Tax Credit at the Local Authority level for 2003-04, 2004-05 and 2005-06 and at the level of the Lower Layer Super Output Area (LSOA) for 2004-05. Each LSOA covers around 400 households, with a minimum population of 1,000 and a mean population of around 1,500. The data allows us to identify the number of children in families in each LSOA which receive each type of tax credit: when this is divided by the number of children aged 0-18 in receipt of Child Benefit, it gives a proportion of children in families

receiving each type of tax credit in each LSOA.

33. The data also allows us to identify a number of levels of entitlement:

- a. Children in out-of-work families receiving CTC;
- b. Children in families in-work receiving WTC and CTC;
- c. Children in families in-work receiving the family and child elements of CTC (but no WTC);
- d. Children in families in-work receiving only the child element of CTC; and
- e. The total number of children in families receiving any CTC.

34. Using a combination of the levels of entitlement above allows us to develop a more fine-grained deprivation measure, which takes account of different levels of deprivation: that is in contrast to measures such as Free School Meals, for which a child is either known to be eligible, or not.

35. The analysis we have done so far has used data at local authority level, and shows that an indicator based on tax credit data gives broadly the same results as other indicators of income deprivation. It also shows a strong negative correlation with results at Key Stage 4. This strongly suggests that such an indicator is a plausible new deprivation indicator for use in distributing funding for 2008-11 for those Ministerial priorities which require a deprivation factor.

36. When we come to use the new indicator based on tax credit data in the 2008-11 DSG allocations, we intend to use a more sophisticated methodology which uses the resident LSOA for children within each authority. It will work as follows:

- a. using the National Pupil Database (NPD) the resident LSOA of each child and Local Authority of the school which they attend can be identified;
- b. for each of these LSOAs we know the proportion of children living in families in receipt of the various types of tax credit. Each child would assume the characteristics of the LSOA in which they live and – in the absence of knowing which specific children live in families in receipt of the tax credits – we can derive a probability that they live in such a family; and
- c. the probabilities derived under step b. are added up for all of the children who attend schools in that authority, and the sum is divided by the number of children to get a score for the local authority as a whole.

37. It would be possible to carry out this process for each of the elements of the tax credit system outlined in paragraph 33, and to weight each element in our measure of deprivation. For example, we might give the first two groups a weight of 1, the third group a weight of 0.5, but exclude the fourth group.

38. We will carry out the further work to link the Tax Credit Data to data from NPD over the summer. Decisions on the precise methodology will be taken at the same time as decisions on Ministerial priorities within DSG, and announced with the school funding settlement in the autumn.

Funding for “Pockets” of Deprivation

39. Alongside the improved method of reflecting deprivation in DSG allocations we will also be targeting funding at deprived children in less deprived authorities – described in the school, early years and 14-16 funding consultation as funding for pockets of deprivation. This will be one of the Ministerial priorities announced at the time of the school funding settlement in October, and we will set out how the funding will be distributed at that time.

G. Exceptional Circumstances Grant

40. There will be two elements to this grant:

- a. The first will be for those authorities who experience significant growth in overall pupil numbers between January and October; and
- b. The second will be for those authorities who experience significant growth in the overall number of pupils with English as an Additional Language or who face an increase in numbers of such pupils from a low base.

Overall Pupil Number Increase Element

41. DSG is highly responsive to changes in pupil numbers: January pupil numbers are used for the financial year that commences three months later. However, local authorities can experience significant growth in pupil numbers between the January count and the start of the new academic year in September. Some reasons are as follows:

- a. Redeployment of personnel to authorities which contain military bases;
- b. Major new housing developments; and
- c. Immigration to an area from outside England.

42. To assess the scale of pupil number increases we will look at the change in pupil numbers at local authority level between the January census, and the termly count in early October. This will cover all pupils of compulsory school age in maintained schools only – data on early years provision and alternative provision is not collected on a termly basis. We will pay a grant to those authorities with significant increases in pupil numbers between January and October, calculated on the following basis:

- a. we will set a threshold expressed as a percentage increase in overall pupil numbers;

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- b. any authority with pupil number growth between the January census and the autumn termly count that exceeds the threshold will qualify for an allocation of grant;
 - c. the grant it receives will be the number of pupils over the threshold, multiplied by 7/12 of the authority's DSG guaranteed unit of funding.
43. The following worked example illustrates how the grant would work:
- a. The threshold is assumed to be 2.5%.
 - b. An authority with 100,000 pupils in January 2009 has 3,000 extra pupils by September 2009. Its DSG guaranteed unit of funding is £3,600 per pupil.
 - c. The number of pupils over the 2.5% threshold is therefore 500.
 - d. The amount of grant received would be $500 \times £3,600 \times 7/12 = £1.05$ million
44. Decisions on the level of threshold, which will be the same for each of the three years 2008-11, will be announced at the time of the school funding settlement in the autumn. The amount of grant distributed will therefore depend on the numbers of pupils in authorities at the autumn termly count date, data on which will be finalised early in the New Year, at which point the amount of grant will be calculated and paid out to local authorities.

Increase in EAL Pupils Element

45. While DSG is highly responsive to changes in pupil numbers, the spend plus method of distribution does not readily recognise changes in the numbers of pupils with additional educational needs. In practice, changes in the numbers of pupils from income deprived backgrounds or with special educational needs are likely to be gradual. But increased migration from overseas – and in particular from the recently joined members of the EU – can easily result in more rapid changes in the numbers of pupils with English as an Additional Language, and that can result in a significant extra burden on local authorities and schools.
46. This element of the grant will work in a broadly similar way to the grant for increases in overall pupil numbers, but will be calculated on the basis of differences in numbers of pupils with EAL between the January 2008 census and the autumn term count for any given year in the three year period. The use of January 2008 as a base point will deal with the situation where a local authority sees an increase in EAL pupil numbers one year, followed by a decline the following year, if those pupils move elsewhere. The calculation will work as follows:

- a. we will set a threshold expressed as an increase in the percentage of pupils in an authority with EAL;

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- b. any authority which experiences an increase in the proportion of pupils with EAL above this threshold will qualify for an allocation of grant;
- c. the grant it receives will be the number of pupils over the threshold, multiplied by a unit of funding per pupil based on the AEN unit of funding³ from the schools FSS formula, uprated by ACA where this applies and paid on an academic year basis – so for extra pupils from September 2008, 7/12 of the grant will be paid in 2008-09, with the remaining 5/12 paid in 2009-10.
- d. for the second year of the grant, pupil numbers in September 2009 would be compared with January 2008 pupil numbers, with the same threshold and payment on an academic year basis as in the first year.

47. The following worked example illustrates how the grant would work:

- a. The threshold is assumed to be a 2% increase in EAL pupils.
- b. An authority with 100,000 pupils in January 2008 has 10% of pupils with EAL, and has 3,200 extra pupils with EAL by September 2008, but 2,500 extra pupils above the 2008 baseline by September 2009 (ie a small reduction in numbers compared with September 2008). That changes its proportion of pupils with EAL to 13.2% for September 2008, and 12.5% for September 2009 (making the simplifying assumption that overall pupil numbers are static)
- c. The number of pupils over the 2% threshold is therefore 1,200 in September 2008, and 500 in September 2009
- d. The amount of grant received would be as set out in the table below:

Extra pupils above threshold	2008-09	2009-10	2010-11
1,200	$1,200 \times \text{£}1,600 \times 7/12$ = £1.12 million	$1,200 \times \text{£}1,600 \times 5/12$ = £0.80 million	
500		$500 \times \text{£}1,600 \times 7/12$ = £0.47 million	$500 \times \text{£}1,600 \times 5/12$ = £0.33 million

48. In addition to those authorities which see significant increases in their proportions of EAL pupils, there may also be authorities whose overall proportion of EAL pupils starts from a low base, where the increase in the proportion of pupils with EAL is not enough to trigger the above element of the grant. Such authorities may lack the infrastructure to deal adequately with pupils with EAL, and we propose a one off lump

³ This was £1,455 in 2005-06 – by 2008-09 the equivalent figure will be around £1,600 allowing for inflation.

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sum payment to such authorities, to help them put in place that infrastructure. The qualifying threshold and the level of the lump sum for each of the three years 2008-11 will be set at the time of the school funding settlement in the autumn.

3. School Budgets

A. Use of Centrally Retained Schools Budget and ECM

49. As set out in para 7, there will be no change to the scope of the DSG (and hence what the Schools Budget can and cannot be spent on). However, from 2008-09 onwards it will be easier for local authorities and Schools Forums to approve contributions from the centrally retained Schools Budget to joint working funded through local authority combined services budgets, many of which may be in support of ECM outcomes. In approving such an arrangement they will still have to assure themselves that there is an educational benefit but no longer have to decide that the benefit gained is at least proportionate to the contribution made from the Schools Budget.

50. The revised arrangements will work as follows, for the CSR period:

- a. The Schools Forum must agree to any increase in the deduction from the Schools Budget – and the local authority will need to demonstrate to the Schools Forum that there are clear benefits to pupils and schools from the increased contribution;
- b. If there is no increase in the deduction from the Schools Budget, there is no need for the authority to seek the Schools Forum's formal agreement to the continuation of the deduction, but local authorities should report to their Schools Forums on the progress of the joint working.

51. At the same time as considering the merits of any increase, Schools Forums may also need to consider the interaction with the new method of calculating the Central Expenditure Limit, set out in the next section.

Central Expenditure Limit

52. The aim of the Central Expenditure Limit (CEL) is twofold: first, to ensure that an authority gives at least as much priority to the funding delegated to schools as to the funding retained centrally for items such as high cost SEN and PRUs; and second, to ensure that the Schools Forum discusses the interaction between funding delegated to schools, and funding outside school delegated budgets to support the education of individual children.

53. The limit determines how much expenditure an authority can retain centrally from its Schools Budget: its current operation restricts the year on year increase in central expenditure to the same or a lower level as the increase in the Individual Schools Budget (ISB). If an authority wishes to retain more than the amount specified by the limit, it must seek the agreement of its Schools Forum, and if that is not forthcoming the Secretary of State. Over the past four years the calculation of the limit has become increasingly complex, as we have sought to ensure a correct year on year comparison, for example, taking account of the transfer of Teachers Pay Grant into DSG.

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54. From 2008-09 the CEL will be simplified, and will be expressed in terms of a minimum increase in the ISB, rather than a maximum increase in centrally retained expenditure. The way this will work for 2008-09 is as follows:

- a. The authority calculates the percentage increase in its overall Schools Budget from 2007-08 to 2008-09. The final figure for the Schools Budget for 2007-08 should be used, including any adjustments after an authority's DSG allocation has been finalised;
- b. This is compared with the percentage increase between 2007-08 and 2008-09 in the authority's ISB plus the amount of funding delivered to PVI providers;
- c. If the increase in ISB + PVI funding is greater than the overall percentage increase in the Schools Budget, the authority has not breached the limit. If the increase in ISB + PVI funding is less than the increase in the Schools Budget, the authority will need to seek the agreement of its Schools Forum.

55. Where an authority has delegated an item of funding for 2008-09 that was not delegated in 2007-08 – for example funding for threshold payments to teachers, funding for 14-16 practical learning opportunities, SEN funding – it should explain what impact the extra delegation will have on the Central Expenditure Limit. Likewise, where a new academy has been created (see para 30 above). The worked example below illustrates how this will work in practice.

	2007-08	2008-09	
Schools Budget	210,000,000	220,500,000	5.00%
ISB	170,000,000	178,330,000	4.90%
PVI Funding	4,200,000	4,600,000	9.52%
Sub Total	174,200,000	182,930,000	5.01%
Central Expenditure	35,800,000	37,570,000	4.94%

56. In this example, the percentage increase in central expenditure is less than the increase in the overall Schools Budget whereas the percentage increase in ISB plus PVI funding is more. The authority has not therefore broken the limit.

B. Minimum Funding Guarantee

57. The Minimum Funding Guarantee (MFG) will remain a key part of the school funding system for the next three years. However, there will be a number of changes, which will simplify the operation of the guarantee. Alongside these, we are also reducing the level of the MFG to take account of the efficiency gains we are expecting

of schools, and in 2009-10 and 2010-11, we are also reducing the amount of MFG headroom: these two changes will reduce the amount of funding needed to implement the MFG, so that as much of possible of the increase in funding over the period 2008-11 will be available for new policy developments.

58. A decision on whether or not LSC funding for school sixth forms should continue to be included in the MFG calculation will be announced at the time of the school funding settlement.

Operation of the MFG

59. An outline of the way the MFG will work from 2008-09 onwards is as follows:
- 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. Each pupil gained or lost attracts the baseline per pupil multiplied by 80% for a primary school and 87.5% for a secondary school⁴.
 - 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.

60. The only change from the current methodology is that the marginal multipliers (80%/87.5%) will now also apply to schools with rising rolls – currently such schools receive the full baseline amount per pupil for each additional pupil. In overall terms, this change will mean that the MFG uses slightly less resource to implement than in previous years.

61. As in previous years we will be placing on the Departmental website a calculator that allows schools to work out how the MFG applies to them; this will be accompanied by a more detailed technical note setting out step by step calculations. There are no further changes to the MFG methodology for the CSR period.

⁴ We have considered whether there is a case for amending the marginal multipliers, by reviewing the proportion of funding for primary and secondary schools that is pupil related across the past 5 years. We have decided that there is no case for change at this time.

MFG Headroom

62. Local authorities require a minimum increase in DSG that is higher than the level of the MFG in order to implement it – we refer to the difference between the two as “MFG Headroom”. Historically it has been set at 1% or more. MFG headroom is required for two reasons:

- a. for authorities with falling rolls, a margin of up to 0.5% above the level of the MFG is required to implement it – that is a product of the 80%/87.5% factors which reduce the rate at which school budgets respond to declining pupil numbers; and
- b. local authorities require increases in funding for the excluded items that are not related to changes in pupil numbers – analysis of the five authorities from the school level modelling project suggested that this added a further 0.2% to 0.4% to the cost of the MFG.

63. Pupil numbers are forecast to fall over the CSR period, but less rapidly in 2009-10 and 2010-11 than in 2008-09. In the light of this, and because the MFG will now be less costly to implement for schools with rising rolls, we have decided that MFG headroom should be set at 1% in 2008-09, but reduced to 0.8% for 2009-10 and 2010-11.

MFG level

64. We will continue to assess average cost pressures on schools as we do now, using three groupings of expenditure: Teachers’ Pay; non-teaching staff pay; and general non-pay pressures. In addition we will, 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.

65. 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.

66. We will also continue to set out for schools and local authorities what our assumptions are at national level for expenditure pressures on non-teaching staff pay. We will continue to take account of changes to employer contributions to the Local Government Pension Scheme and the ongoing costs of implementing single status agreements in our assessment of the pressure on the paybill for non-teaching staff.

67. The above assessment of pressures will feed into a calculation of average cost pressures for primary and secondary schools for each of the years of the CSR period. The MFG will be set below this level, by deducting from the average cost pressure figures an assumption about the level of efficiency gains we expect schools to make across the CSR period. That will result in the MFG being set at a level that is

substantially lower than 3.7% - the level for 2007-08. We will publish figures for the level of the MFG at the time of the school funding settlement.

MFG and Early Years Funding Reform

68. From 2009-10, local authorities will be required to fund early years provision in both maintained and PVI settings on the basis of an hourly count, with the option to use places for some, but not all settings. That will change the overall number of pupils that is used in the MFG methodology for most primary and nursery schools with early years provision.

69. We have decided not to amend the operation of the MFG nationally to adjust for this change, but we recognise that local authorities may want to put in place transitional measures for schools that may be adversely affected by the change in counting methodology. Chapter 4 on early years funding reform sets out a number of options for transitional protection.

C. Redistribution of Balances (section updated 14 November 2007)

70. Ministers announced on 26 October that the proposed redistribution of 5% of surplus balances would not go ahead for the period 2008-11. The department will continue to monitor the overall level of surplus balances during the forthcoming spending review period, through analysis of authorities' section 52 outturn statements.

71. If the levels reported do not show a significant reduction, we will bring forward further proposals, having resolved the technical issues that were raised during the recent consultation, for implementation during the following spending review period.

72. The arrangements for dealing with excess surplus balances - defined as over 8% of total revenue funding for primary and special schools and 5% for secondary schools - remain unchanged.

D. Deprivation Funding

73. In December 2005, the Department published a joint DfES/Treasury Report, *Child Poverty: Fair Funding for Schools*, on the ways in which local authorities fund schools to meet the extra burdens imposed by social deprivation among their pupils. Local authority statements of policy and practice in this area were published in August 2006, and since then authorities have been reviewing their local arrangements. The announcement on school funding for 2008-11 on 25 June 2007 set out the further steps the Department is taking to ensure that deprivation funding in the Dedicated Schools Grant is properly targeted in local funding formulae. The Department published guidance on 1st August for local authorities on the assessment of the quantity of deprivation funding distributed through their local funding formula⁵, with a template to complete and return to the Department by 31 August 2007. Thereafter the timetable for action on deprivation funding will be:

LAs to complete financial template	By 31st August
CSAs discuss with local authorities	August – Oct 2007
CSAs feedback to DCSF	Mid August - ongoing
Discussion with Authorities of early concerns	Sept/Oct 2007
LAs amend funding formulae and consult to enable...	Sept – Oct/Nov 2007
Implementation of revised formulae	April 2008
Revised Statements from authorities (based on 08-09 budgets)	Summer 2008
Directions to authorities to make change for April 2009 (if required)	Winter 2008

⁵ This can be found at: <http://www.teachernet.gov.uk/docbank/index.cfm?id=11682>

4. Reform of Early Years Funding

Summary

74. There will be a staged approach to the reform of early years funding - the aim is to support better outcomes for children at age five and the extension of the free entitlement by September 2010:

- During the autumn term, Ministers expect local authorities to carry out an analysis of the costs of Private, Voluntary and Independent (PVI) providers in their area and to present it to their Schools Forum and relevant sub-group to inform setting the budget setting process for 2008-11.
- Authorities that do not currently have representatives of the PVI sector on their Schools Forum are strongly encouraged to do so. We will be changing the regulations this autumn to allow extra non-schools representatives and looking to legislate to make such representatives compulsory.
- From 2009-10 all local authorities will be required by regulations to change how children are counted in the maintained sector so that there is a consistent approach to pupil counting across maintained and PVI providers.
- From 2010-11 local authorities will be required to use a single local formula for funding early years provision in the maintained and PVI sectors. Local authorities will be encouraged to introduce the formula from April 2009 wherever possible.

This chapter sets out the background to and rationale for the reforms, and offers guidance on implementation, including case studies of two authorities who are already implementing innovative approaches to early years funding. In addition, the Department will be working with a group of local authorities to identify approaches to developing a single formula for early years funding across both maintained and PVI providers.

Context and objectives

75. All three and four year olds are entitled to 12 and a half hours free early learning and care per week for 38 weeks a year. This will be extended to 15 hours per week by 2010. There will be a gradual roll-out of the extended offer – 20 Pathfinder local authorities are currently delivering 15 hours and also exploring how the entitlement can be made more flexible⁶. The funding reforms set out below are designed to support the extension of the free entitlement and address historic inconsistencies in how different settings are funded, so that the system becomes fairer and more transparent and all children can receive free provision.

⁶ See www.everychildmatters.gov.uk/earlyyears/flexibleentitlement for more details.

Appendix A

76. Securing the free entitlement is one of the key levers that Local Authorities have, alongside the delivery of integrated services through Sure Start Children's Centres, to meet their new statutory duties to ensure there is sufficient childcare for local families, to improve child outcomes at age 5 and to narrow the achievement gap. The entitlement delivers better outcomes for children now and in the longer term. There is clear evidence of the benefits of pre-school provision for children's learning and development, especially for the most disadvantaged. Free provision also makes a significant contribution to childcare costs, supporting working parents and those making the transition into work. This reinforces the benefits of the entitlement for children – helping to increase family income and the positive impact that parental employment has on children's life chances in the longer term.

77. Our main objective is to maximise take-up of high quality, free early years provision. Take-up is lower in disadvantaged communities and we know that the predominant pattern of delivery (through five 2 and a half hour daily sessions) can be a constraint on children benefiting from all of their entitlement. The government is clear that the free entitlement should be delivered through a diverse market that provides choice for parents. Stable funding and sustainability are critical to continuously improving quality in all settings. The reform of the free entitlement funding system is designed to support those objectives by:

- Removing barriers in the funding system to the flexible use of the free entitlement, so that children can take up their entitlement at more than one setting, and in different sectors.
- Supporting the sustainability of all settings, giving them stability to plan for the future and improve quality.
- Ensuring that the entitlement is free at the point of delivery for all parents.
- Putting the right incentives in place to increase take-up of the free entitlement.

Case Study 1: Pathfinders for the extended, flexible free entitlement - Rochdale MBC

Rochdale has been offering 15 hours of flexible free provision since April 2007. Following consultation with all sectors and with the agreement of their project steering group Rochdale adopted the following model of flexibility:

- children can access a minimum of one hour and a maximum of six hours free provision between 8am and 4pm each day
- the entitlement can be accessed over a minimum of three days and can be taken up in more than one setting across both sectors

Rochdale engages with all providers through a mixture of all sector briefings and meetings on a borough-wide basis, and smaller cross-sector ward meetings and individual sector meetings. A regularly updated FAQ email ensures all providers are kept up to speed on progress.

The funding system has been also been changed: PVI rates of funding are now differentiated by provider type (following an analysis of costs of provision in different settings) and are paid on an hourly basis. (Maintained settings are funded for the additional 2.5 hours at an agreed rate separate from existing formula funding by hours of attendance).

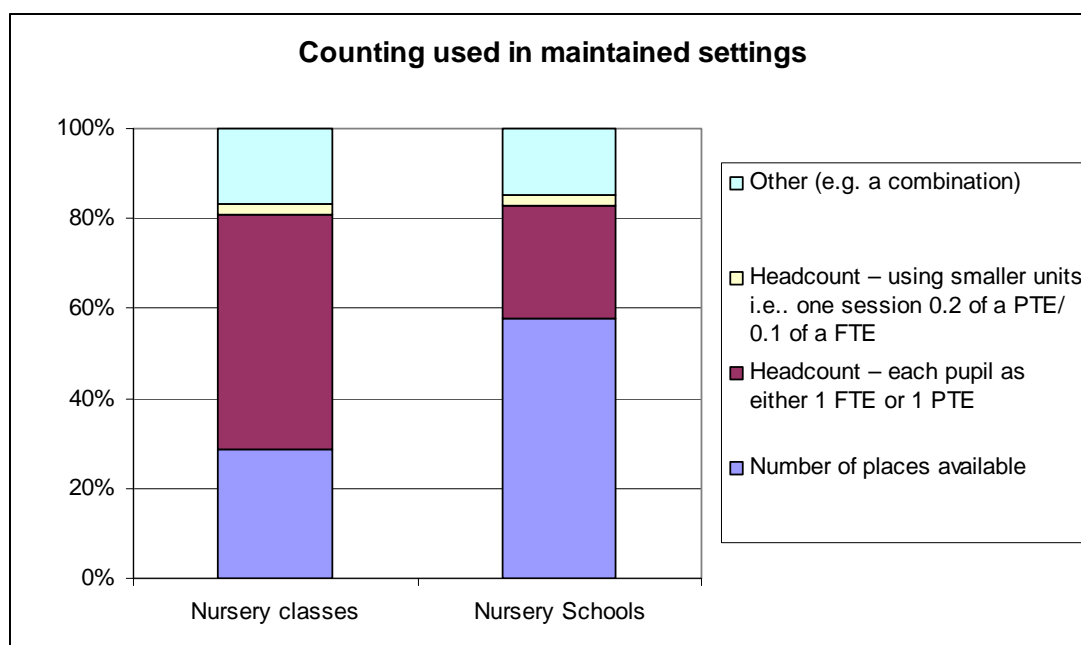
Nearly all providers are now on board - 71 offer the full 8 till 4 flexibility, 11 offer extended sessions up to 4.5 hours and 8 have extended to five hours. 30 providers deliver 3 hour sessions over 5 days. Five childminders are also offering full flexibility.

85% of local children are accessing the new offer and this is expected to increase in the Autumn term.

The case for reform

78. The current entitlement is delivered through a mixed market and the pattern of provision varies from one local authority to another. 36% of children benefit from free provision in the private, voluntary or independent sector, including at full day care settings, playgroups and with childminders. The consultation on school, early years and 14-16 funding set out a number of issues with the current funding system, mainly caused by inconsistencies in how maintained and PVI settings are funded. Some of these inconsistencies make the system less effective at meeting parents' needs and will be a barrier to increasing the quality, flexibility and take-up of the entitlement in the future. They include:

- Children are counted differently for funding purposes in the maintained and PVI sectors. In PVI settings funding is based on how much provision each child takes up while in nursery schools and classes funding tends to be on places and/or a headcount of children. Our survey showed that 80% of local authorities funded maintained settings on this basis (see the chart below). This means that there is little incentive for maintained providers to encourage parents to access the full entitlement and it often prevents children from accessing their entitlement at both a PVI and a maintained setting (because all the funding goes to the maintained provider, or else there is double funding).



- 94% of authorities fund the PVI sector on a flat rate. So funding levels are not differentiated according to a clear assessment of the circumstances in which PVI providers operate, whereas formula funding for maintained providers is likely to take a whole range of factors into account (such as deprivation, staffing needs and

premises costs). This unsophisticated funding system for PVIs means that authorities may not be getting value for money or funding the entitlement appropriately.

- The emphasis in the school funding system is on stability and predictability of budgets each year (and setting out budgets for 3 years ahead) but there is little stability in PVI budgets, which respond to children's movements throughout the year. There are benefits in both approaches, but extensive instability in PVI budgets can undermine quality and sustainability.
- Local funding decisions on the level and means of funding the free entitlement are subject to discussion and consultation at each local authority's Schools Forum, but the data we have collected on schools forums shows that the early years sector is often not represented on that forum (only 11 of the 119 forums surveyed had a non schools member from the PVI sector). Changes in this area are set out in full in chapter 5.

79. The reform of the local funding system for the free entitlement will address all of these issues. The following sections set out the rationale for each change in more detail and discuss the local implementation issues which may arise. Our approach to reform is predicated on the assumption that local authorities will need to develop local solutions to these issues in consultation with providers and in line with the general guidance provided here. We also expect the new Childcare Regional Networks, which have been established to provide to support to local authorities in implementing the key duties in the Childcare Act 2006, to be a key forum for sharing ideas and approaches to these reforms. The networks will meet at least four times a year and will be supported by Government Offices. The second round of meetings is currently underway.

Stage one: analysing costs in the PVI sector

80. Before setting local budgets for 2008-11 all local authorities are expected to undertake an analysis of the cost of delivering free entitlement provision in their local PVI sector and to present that analysis to their Schools Forum, to inform the budget setting process. Where authorities do not already have a representative of the PVI sector on their Forum, they should endeavour to make special arrangements to ensure that such a representative is able to attend the meeting where the analysis of costs of delivery is considered. This cost analysis is an important first step towards the development of a local formula and will help address any immediate sustainability concerns, providing a clear process for providers to feed in their views and evidence on costs. A guide for local authorities on analysing costs in the PVI sector, including local case studies, has been published at:

www.everychildmatters.gov.uk/earlyyears/fundingreform

Case Study 2: Shropshire - A new way of funding PVI providers to deliver the free entitlement

Shropshire County Council moved away from the typical 'flat rate' system for funding the free entitlement in 2004, because of concerns about variations in cost and the need to ensure that rural settings were sustainable.

The new system is based on an analysis of the cost of provision for 3 and 4 year olds and other key characteristics of the provision. There are two categories: place-led funding for PVI settings operating in rural areas on school sites and pupil led funding for all other settings. There are six different bands of funding for these providers – three for private providers and three for voluntary and independent settings. Private providers receive an allocation that accounts for additional costs such as business rates, which are not payable in the voluntary sector. There is also a mechanism for guaranteeing minimum levels of funding for some rural PVI settings.

Consultation and collaboration has been the key to success. Shropshire held a range of meetings across the county with all providers to ensure that everyone was informed and given the opportunity to contribute to the planning. Since moving to the new system Shropshire has seen a marked reduction in requests for sustainability funding - the clarity and openness of the system enables settings across the county, and particularly in more rural areas to operate on a much more secure footing. This means that parents get sustained provision, in particular in rural areas that would have otherwise struggled to offer the entitlement.

For more detailed information on the approach see:

<http://www.everychildmatters.gov.uk/resources-and-practice/IG00178/>

Stage two: changing the early years count arrangements

81. From April 2009 all Local Authorities will be required to use a count of children for funding purposes that is consistent across the maintained and PVI sectors. The presumption will be that providers are funded according to the amount of provision children take up, and this is consistent with the long term direction of travel for national funding arrangements (as set out in chapter 2). To do this we will change the current presumption in school funding regulations that under-5s in the maintained sector are funded on places or headcount (i.e. where each child counts as either 1 or 0.5 regardless of the number of hours they actually access at the school). Instead, the presumption in regulations will be that under-5s in maintained settings are funded on 'provision' (i.e. hours taken-up). There will still be an option to fund some, but not all, settings on places. This approach will apply across the board i.e. there will be an option to fund some PVI settings on places set out in the Code of Practice for non maintained early years provision.

82. As highlighted above, one of the key drivers for this change is our ambition to increase the flexibility of the free entitlement in response to the needs of parents and families. This includes enabling children to access their full entitlement at more than one setting – the current position on maintained funding restricts this in many LAs or results in double funding. This change is also intended to ensure there is an incentive on all settings to stimulate full take-up of all the hours that children are entitled to – current data on the PVI sector indicates that 42% of three year olds do not access their full 12 and a half hour entitlement.⁷

Assessing the impact and smoothing transition

83. The new count will feed through into the calculation of the Minimum Funding Guarantee for primary and nursery schools. However, we recognise that for some schools - especially small or rural ones – using the new count could mean they do not get adequate protection from the Minimum Funding Guarantee – their per pupil funding will be protected, but not their pupil numbers, which could be reduced by the new count method. In the absence of national data on the actual take-up of provision in the maintained sector it is difficult to model this impact at national level. For this reason we will expect all local authorities to conduct their own impact assessment of the change on local schools and present this to their Schools Forum for discussion before the changes come into effect (see box 1 below for more details on impact assessments). Authorities will also want to consider, with the Schools Forum, options for smoothing the transition to the new count for some schools in the light of that assessment, which could include:

- Continuing to fund a limited number of settings on places or headcount – temporarily, for transition, or (in the case of places) in the longer term;

⁷ Statistical First Release, 2007 available at www.dfes.gov.uk/rsgateway/DB/SFR/s000729/index.shtml

- Applying a locally agreed level of protection to the old pupil count until it converges with the budget guaranteed by the MFG (on the basis of the new count);
- Using the resources released by the change of count to provide transitional support (e.g. a lump sum or other locally agreed protection) to those settings that need it.

Box 1: Impact assessments

We would expect an impact assessment to be presented to the Schools Forum and to include:

- Representative data over a suitable time period to allow for reasonable assumptions to be made about the difference between a place/headcount-led count and a provision-based count. To achieve this, LAs should consider sampling maintained providers soon to build up a local picture of the pattern of actual take-up.
- Modelling of the effect on school budgets
- Consultation with relevant partners on the impact of the change and different budget scenarios for schools – including consultation with the non-maintained sector for comparison.
- Scenario analysis, including the effects of applying different protection options for some schools and the long term implications of those for funding the free entitlement
- An account of parental demand for the free entitlement and how the impact of changes would affect the authority's ability to meet its statutory duties

84. The impact assessment will also be important in managing the interaction with 3 year budgets for schools. All schools with free entitlement provision should be made aware now of the planned formula review, the change in the count from 2009 and the process that local authorities will go through to implement that change. Where possible, authorities may want to provide some indication of the expected impact on the second year of the three year budget period and give assurances to schools regarding the opportunity to identify and deal with risks to their budgets through the impact assessment.

85. Some maintained Nursery Schools may face particular challenges when the counting methodology is changed. Nursery schools are more likely to be funded on places (57% of LAs funded nursery schools in this way). They may only be providing the free entitlement and in some cases may have proportionately higher overheads than

other local providers. Where relevant, authorities will need to assess the impact on nursery schools and discuss appropriate protections with the Schools Forum. In many cases authorities will want to consider this alongside the other support available to the many nursery schools that are becoming part of children's centres and the scale of parental demand for the provision.

Stage three: a single local formula to fund the free entitlement

86. The introduction of a single local formula for funding the free entitlement at local level is intended to ensure consistency and fairness in the way that all providers of free nursery education and care are funded. It does not necessarily mean that providers will all be funded at the same level, but that the same factors should be taken into account when deciding on the level of funding. The consultation document included a proposal that local authorities should have a standardised methodology for setting the per pupil unit of funding in the maintained and PVI sectors. The commitment to a single formula incorporates that proposal – as LAs will need to have a consistent way of calculating the per pupil unit of funding in order to develop the pupil-led element of a formula – but it also goes beyond that, by bringing into scope other factors which LAs currently use to determine levels of funding in the maintained sector.

87. The requirement to fund the free entitlement through a single formula will be reflected in the new Code of Practice on the provision of free nursery education places for 3 and 4 year olds (in relation to PVI providers), which will sit alongside the existing requirement in the regulations on school funding to use a formula to fund maintained settings. The requirement will come into effect from April 2010 but we are encouraging local authorities to introduce this change from 2009 wherever possible.

88. Authorities will want to consider now the planning and data collection implications of the new requirement and, in particular, to regard their analysis of the cost of delivery in the PVI settings as the first step in that process (see para 80 above).

89. The DCSF will be setting up a formula development project with a small number of local authorities to identify and work through approaches to developing a single local formula for the free entitlement. We currently expect the project to be up and running by November and for findings and case studies to be available in Spring 2008. This work will enable us to identify ways of building a formula that are appropriate to early years provision and tested in different local contexts.

90. In advance of the detailed findings of that work local authorities may wish to consider the following questions in planning for the formula:

- **Which factors are relevant to funding all children regardless of their characteristics or the setting they are in.** For example: staff to child ratio requirements (which will be aligned between maintained and PVI settings from September 2008) and assumed costs of space and facilities in line with national standards. These will underpin the new Age-Weighted Pupil Unit which is likely to be common for all settings.

Appendix A

- **How to meet the specific needs of some children** e.g. disability, special educational needs and looked after or vulnerable children.
- **How to respond to specific characteristics of the setting or settings.** Ownership is likely to be relevant as all private providers have to pay full business rates while voluntary and some maintained settings do not.
- **What method of apportioning premises costs to use in the formula**
- **What indicator(s) of deprivation to use in the formula.**
- **How to reflect other circumstances, such as rurality or small settings** in the formula e.g. through lump sums.
- **Ways in which the funding generated by the new formula can contribute to improving the quality and sustainability of provision.**
- **How to treat children in reception classes.** Although it is not intended that the single formula will cover children in Reception (as in statutory terms, the school starting age is the term following a child's 5th birthday) we know that many local authorities offer earlier entry into full time provision in reception classes during the year leading up to a child's fifth birthday. Drawing a distinction between children taking up the free entitlement to part time nursery education and children in reception classes will not always be straightforward, especially during transition terms, but authorities should start from the principle that, for funding purposes, once a child is in reception they are in full-time statutory education and no longer accessing the free entitlement. Authorities will also need to consider the interaction of the free entitlement funding formula with reception class funding to ensure that the introduction of a single formula does not make the exercise of parental choice more difficult.
- How to ensure that the **process** for building the single formula and any differentiation in the AWPU is carried out in a transparent way, in partnership with local providers, and results in a formula that is transparent, fair and simple.

91. **Stability** of funding will be a key consideration in developing a formula for funding the free entitlement. Having greater certainty about the level of income from the free entitlement at the start of the year will help providers plan for the longer term and help to improve the quality of provision. In the consultation document we recognised that in the present system there appeared to be too much place-led funding in the maintained sector and too little stability in the PVI sector. The most popular by far of the alternative approaches suggested for the PVI sector was the use of a minimum guarantee of funding which could be adjusted in the light of actual take-up. Equally, in the maintained sector we will move away from a place-driven approach to funding (see paragraphs 81-85 above). Once a single formula is in place this can be used to ensure stability for all settings that need it, for example through lump sums or other mechanisms that reflect the fixed and semi-fixed costs of delivery.

92. In the meantime, local authorities may want to consider interim measures which increase stability for PVI settings. We are not prescribing a particular approach – because it should be tailored to local market conditions and setting circumstances and may not be necessary in the longer term once a formula is in place.

Box 2: Options for providing a minimum guarantee of funding in the PVI sector

In addition to giving providers clarity at the start of the year over what level of funding they can reasonably expect, a minimum guarantee means that authorities share the risk of unfilled places with the provider rather than devolving it to them (as now) or absorbing it all themselves (as is the case with place-led funding). In particular it could enable authorities to incentivise higher take-up of the entitlement – access to free provision by lower income families is low and may be erratic, with higher drop-out rates. With more guarantees about minimum funding (and a reduced penalty for occasional non-attendance) settings will have more of an incentive to market their provision to harder to reach families.

There is a range of ways that authorities might offer a minimum guarantee of funding to PVI settings, including:

- Funding a minimum number of children (agreed separately for each setting) based on a proportion of the previous year, then fully funding anything above that but damping any downward adjustments (i.e. if 2 places are not filled the provider only loses funding for 1 place).
- As above, but applying different levels of protection to different settings e.g. in a small rural setting funding 0.75 of an unfilled place.
- Funding a guaranteed minimum number of pupils, with adjustments only in the event of higher numbers. This approach could restrict local flexibility to move money around the system in-year, but it could be particularly valuable in settings or areas where authorities want to incentivise providers to increase take-up of the offer.

Local authorities will need to come to a view on the balance between increasing the complexity of the system and the potential benefits for some local providers of these or similar approaches. The additional cost of funding unfilled provision could be off-set by reducing the rate at which some places are currently funded – or by applying the approach selectively in relation to setting need. If LAs were to reduce the level of place-led funding to such an extent that the impact on cost was completely neutralised there would still be potential benefits in this approach for provider stability, planning and risk management, although the other incentive benefits described would probably be reduced.

Improving the transparency of the funding system

93. There was a proposal in the consultation document on School 14-16 and Early Years Funding for separate identification of early years funding within the Dedicated Schools Grant. This will not be implemented for the time being. As set out in the introduction, the Department has announced a wider review of the distribution formula for DSG with a view to having a single formula available for use from 2011-12.

94. One implication of this is that early years funding could be clearly identified in each authority's funding allocation. In the meantime we will be taking a number of steps to improve transparency in the current system. We have published the results of our survey of local approaches to distributing funding and our estimates of local spending on the entitlement (in 2006-07) based on local authority Section 52 returns⁸. These resources will help all partners have a full and informed debate about local funding decisions. The option of separate identification of early years funding in future national arrangements will be kept under review in light of the reforms described above.

⁸ These can be found at: www.everychildmatters.gov.uk/earlyyears/fundingreform/survey/ and www.dfes.gov.uk/localauthorities/section52/subPage.cfm?action=section52.default&ID=87 respectively.

5. Schools Forums

A. Introduction

95. The evidence from our programme of visits to Schools Forums is that in general relationships with authorities are good, business is managed well, and members are clear about the issues. However, there are a number of changes to the funding system to be implemented over the next three years, and the Government is making changes to the membership of schools forums to bring in wider expertise to support those funding reforms. There will be a lot of local decisions to take on how the reforms are implemented, particularly on early years and 14-16 funding.

96. Local authorities and their schools forums will also have to take decisions on the distribution of funding increases that are not as high as those for the previous ten years, against a background of a much sharper focus on efficiency and value for money, and a Minimum Funding Guarantee that is below cost pressures. It is important to get the decision making structure right for this programme of work, and also to ensure that Schools Forums have the right membership and skills to fulfil what we expect to be a demanding role.

97. In summary the changes will mean that:

- a. headteachers will be able to elect other members of the senior management/leadership team among their Forum representatives;
- b. named substitutes can be nominated, by a method determined by the local authority after consulting its forum;
- c. if their Forum has “non-schools” members, local authorities must appoint representatives of early years private, voluntary and independent (PVI) providers and of the 14-19 partnership. We encourage all authorities to have non-schools members on their Forum and will be looking to legislate to make this compulsory; and
- d. forums may have up to one third of non-schools members – to date the limit has been one fifth – so schools members will maintain the majority of at least two schools members for each non-schools member.

We also recommend that Forums establish a sub-group on early years and that local authorities should consider ways to support their new Forum members.

98. The Government is undertaking two reviews of Schools Forums: in the short term, to determine whether further changes are needed during the CSR period; and for the longer term, to consider how Schools Forums will relate to the developing arrangements for Children’s Trusts and the wider Every Child matters agenda.

B. The Programme for Forums

99. As well as the regular programme of consideration of formula funding issues, Schools Forums will be involved in local changes to funding arrangements over the CSR period. We expect that local authorities will present to their Schools Forums the specific additional items set out below.

- a. Prior to financial year 2008-09
 - i) an analysis of costs to PVI providers of delivering the free entitlement as set out at paragraph 80 in chapter 4;
 - ii) arrangements for funding specialised diplomas, where there has been a successful consortium to deliver them to an authority's secondary schools; and
 - iii) proposals to use centrally retained funding from the Schools Budget for joint working in support of the ECM agenda, that will increase the overall amount retained for that purpose within the Schools Budget.
- b. Prior to financial year 2009-10:
 - i) an impact analysis of changes to pupil numbers for primary and nursery schools flowing from the revised counting method to be introduced that year, with proposals for local protection arrangements for those schools where it is necessary; and
 - ii) proposals for a single funding formula for early years provision, where the authority has decided to implement such a formula for this financial year.
- c. Prior to financial year 2010-11 - proposals for a single funding formula for early years provision, for the remaining authorities.

C. Changes to MFG Methodology

100. Since 2006-07, local authorities and their Schools Forums have had the power to approve variations in the MFG methodology, where the formula set out in regulations would produce an anomalous result, provided that all the variations proposed do not affect in total more than 20% of the maintained schools in an authority. This devolution of power has generally been a positive experience, and the Government is extending and amending this power, to allow Forums to agree with the authority variations that would affect up to 50% of the pupils in an authority (measured by the number of pupils in the schools affected by the complete package of proposed changes). As now, local authorities and Schools Forums will not have the power to agree a change in the level of the MFG. If agreement cannot be reached, the local authority can ask the Secretary of State to approve changes to the MFG methodology.

D. Membership

Other Members of the School Senior Management Team

101. We are making changes to regulations to allow local headteachers to choose to be represented by other members of the school senior management team. At present only headteachers and governors can represent schools on the Schools Forum. The changes will mean that:

- a. Headteachers can elect a representative to the Schools Forum who is not a headteacher but another member of a school senior management/leadership team; and
- b. Local authorities will make arrangements, after consulting the Forum, for schools members of the Forum to be represented by named substitutes when not all of them can attend. These named substitutes could also include senior managers other than headteachers. We anticipate that the most relevant members of the senior management team for these roles (other than heads) are bursars and others with significant financial responsibility.

102. These changes will help to produce a wider base of membership and bring in relevant experience from other people in an authority's schools. They will also help to spread the workload of the Forum and may be a useful way of encouraging the development of other members of the senior team.

Representatives of early years PVI providers and the 14-19 partnership

103. We will change regulations so that authorities are required to appoint representatives of early years providers and the 14-19 partnership on the Schools Forum, where the authority has non-schools members on the Forum. We are seeking an opportunity to amend the primary legislation to make the appointment of non-schools members compulsory. The authority will decide who to appoint, consulting local representative groups, the coordinator of the 14-19 partnership and perhaps local colleges.

Early Years

104. At present, Forums must have representatives of early years maintained providers⁹, a few Forums have a member or observer representative of early years PVI providers, and in some cases a council officer is expected to represent early years.

105. The Government makes available over £3 billion a year through the Dedicated Schools Grant for early years provision in the maintained and PVI sectors. In 2006,

⁹ Forums must have Primary representatives and therefore have representation of nursery classes, and they must have a representative of nursery schools if the authority has nursery schools, though this could be a Primary representative in certain circumstances.

over a third of parents used their free entitlement in PVI providers. We want to ensure that there is a balanced debate on local allocations of this funding – and the Schools Forum is the key local consultative body on this issue.

106. We also want to make sure that good representation is in place to inform local decisions on local changes to early years funding. Representation on the Forum will give a voice in discussions about relative distributions of funding, and a formal opportunity to set out the implications of funding decisions on the PVI sector. We recognise that it may be difficult for one or two representatives of the sector to wield significant influence in a large schools-dominated forum, and this is partly why we are expecting LAs in addition to set up consultative arrangements with the sector – perhaps an early years sub-group of their Forum.

14-19 Partnerships

107. As they are rolled out from 08/09, Diplomas at KS4 will be funded from the Schools Budget. It is proposed that the additional costs of Diplomas, including those arising from the delivery of Diplomas in partnership with colleges and other local providers, will be met from an annual specific formula grant to the LA supplemented by contributions from Dedicated Schools Grant. The focus for planning the delivery and funding of Diplomas pre and post 16 across an LA area, including partnership provision, will be the 14-19 partnership.

108. We are not aware of any Schools Forums that have representation of 14-19 partnerships per se, although with LSC enjoying observer status there will be overlap between Forum and partnership membership. Representation of the partnership on the Schools Forum will ensure that:

- a. The partnership can contribute to discussions in the Forum on the contributions from school budgets that are needed to deliver the Diploma plan.
- b. Forums are aware of and able to incorporate a Diploma funding perspective into wider decisions on the distribution of LA/school funding including the decisions on Central Expenditure, varying the MFG, and other issues which may impact on DSG contributions to Diploma funding.

E. Support for early years representatives

109. Many authorities provide excellent support to their Schools Forum members. The good practice guide¹⁰ suggests a range of support that authorities may want to provide to new members. Some members, such as an early years provider member, may need extra support. They are unlikely to have the same level of support as a headteacher with a senior management team or a representative supported by the 14-19 partnership.

¹⁰ This can be found at: <http://www.teachernet.gov.uk/docbank/index.cfm?id=9370>.

110. An early years sub-group of the Forum can help to support early years representatives: this is outlined below. Other sources of support for early years representatives may include:

- a. Contact with a representative organisation of early years PVI providers.
- b. Your regional childcare network.
- c. The local authority Early Years team.

F. Non-schools members:

111. We will change regulations to require Forums to have at least two-thirds schools members – those members elected by headteachers and governing bodies to represent schools. As present Forums must have at least four-fifths schools members.

112. We are making these changes to allow authorities to add new representatives of early years PVI providers and the 14-19 partnership without having to make substantial changes to the rest of the membership of their Forum. We also believe it is important to preserve a substantial majority of schools members, as schools are the major recipients of funding from the Dedicated Schools Grant. Clearly the reviews of Schools Forums mentioned at para 98 will include in their scope the membership and composition of Forums.

G. Early Years sub-group

113. Some local authorities have established sub-groups of their forums on early years and other reference groups to engage early years providers. These may have grown out of EYDCP arrangements, been set up for the national consultation on funding or be in response to the need to consult them on the sufficiency duty. They are working well. We expect all authorities to have in place a mechanism for consulting PVI providers on the early years funding reforms – this will also be necessary for work on the sufficiency duty¹¹. We recommend that all authorities consider establishing a sub-group of their Forum for this purpose. These arrangements need not be as formal as the full Forum as such a group would have no specific powers, but we see it as a good opportunity for the authority to:

- a. Seek the views of a greater range of early years maintained and PVI providers directly. Only a small number of early years providers will be represented on the Forum and the PVI sector in particular may be very large and very diverse. It may be a challenge for only one or two people to represent this group and they may not have the capacity to attend all meetings and understand all the issues.

¹¹ See guidance at www.everychildmatters.gov.uk/earlyyears/sufficiency/.

- b. Engage providers in a more detailed discussion of early years funding. It may not be possible to get into the necessary detail at the Forum given the size of their agenda.

H. Further support and advice from the Department

114. The Department will offer a range of support to authorities to implement the funding reforms – some of it will be particularly relevant to Schools Forums including:

- a. an updated good practice guide for Schools Forums, which will take account of the latest funding reforms;
- b. ongoing support and guidance provided via the Schools Forum web pages of the Departmental website; and
- c. the Department will be holding a series of regional conferences in the autumn: as with previous conferences, these will offer colleagues from local authorities and Schools Forums the opportunity to discuss the funding changes with officials from the Department, and with each other.

6. Specific Grants

A. Introduction

115. This chapter gives further details on the arrangements for specific grants across the CSR period. It covers: School Development Grant; School Standards Grants; and Specific Grant Payments to Academies.

B. School Development Grant

116. This note refers to the arrangements for the main School Development Grant (SDG) and post-Leadership Incentive Grant funding (post-LIG). It excludes City Learning Centres, Training Schools, Leading Edge and Specialist Schools; arrangements for these elements will be announced in the autumn.

Allocations to local authorities

Main SDG

117. The allocation of main SDG to local authorities will be based on the 2007-08 baselines. As a result it will continue to include the funding for those programmes (such as Excellence in Cities, Behaviour and Improvement and Advanced Skills Teachers) merged into SDG in 2006-07. The baseline will be increased on a per pupil basis, each year, in line with the level of the minimum funding guarantee (MFG).

118. Further, the allocation of deprivation element of post-LIG funding (£125,000 per eligible school in 2007-2008) will be added to the main SDG baseline. The allocation will be based on the 2007-2008 allocation; increased on a per pupil basis, each year, in line with the MFG. However, because this funding is only paid to certain secondary schools it will be calculated separately and then added to the main SDG baseline

119. For each year, the local authority will continue to be able to retain centrally as much in cash as it did in the previous year: ie for 2008-09 it will be able to retain as much as it did in 2007-08. If the authority retains a lower amount in 2008-09, it can retain no more than that amount in 2009-10.

Allocation to schools

120. In allocating main SDG to schools, including post-LIG funding as described above, to schools, authorities must ensure that each school receives at least the same per pupil amount (in cash) as in the previous year.

121. As the funding guarantee to schools (a cash freeze) is lower than the increase in the authority's overall allocation (which is in line with MFG), there will be some headroom for distribution over and above the guarantee.

122. Local authorities and Schools Forums can determine how to distribute this headroom to schools on a fair and transparent basis. Where a school receives a share of the headroom, that will be added to the baseline on which the per pupil guarantee for the following year is calculated.

123. It will be a condition of grant that the differential in per pupil funding between the most and least deprived schools in a local authority must not be narrowed from its 2007-08 level.

Monitoring the deprivation differential

124. For 2007-08, Table 2 of the Section 52 Budget Statement shows total SDG by school (excluding Pupil Referral Units). We will remove the top up elements (City Learning Centres, Training Schools, Leading Edge and Specialist Schools) from the Table 2 figure to arrive at a 2007-08 main SDG figure for each school. For 2008-09 we will consider whether we should include an additional column in Table 2 of Section 52, to give a figure for main SDG only.

125. The main SDG figure for each year will be compared to the proportion of pupils known to be eligible for FSM in each school, in each year: we are using FSM since many of the constituent grants that were merged to form SDG were distributed using this measure. This will demonstrate the distribution of main SDG against relative deprivation, in each year.

126. The Department will then compare the differential in funding between the most deprived school and the least deprived in each authority, for each year. Where the differential in an authority has narrowed between the two years, the Department will ask the authority for an explanation. If there is no satisfactory explanation, the Department will consider setting additional conditions on the authority's use of SDG in future years.

C. School Standards Grant and School Standards Grant (Personalisation)

School Standards Grant (SSG)

127. The SSG formula will, as now, be based on a flat rate per school plus a per pupil amount. These rates will be set out in the autumn. All schools will see at least a per pupil increase in line with the MFG.

School Standards Grant Personalisation (SSG(P))

128. The SSG(P) formula will continue to be allocated on the basis of 70% to secondary schools, 30% to primary and special schools and PRUs: 15% based on pupil numbers, 35% on Free School Meals and 50% on low prior attainment. Provisional unit values will be issued in autumn 2007. Final unit values will be issued in summer 2008 once final attainment figures for 2007 are available.

D. Specific Grant payments to academies

129. At present, some specific grants are already paid direct to academies by DCSF (SSG, SSG(P), Specialist School funding and School Meals Grant); but Standards Fund grants are generally payable to academies through local authorities. Devolved Formula Capital (DFC) grants are also paid in this way. From 2008-09, DCSF will pay all specific grants direct to academies. This is being done in order to reduce administrative burdens in local authorities and to streamline the payment process.

130. For DFC, the national formula will continue to apply to academies, but the relevant amounts will not be included in local authority allocations of DFC, and payments will be made direct by the Department.

131. The Department has gathered detailed information from local authorities on 2007-08 Standards Fund allocations made to academies (or predecessor schools for 2007 conversions). This will be used to model options for future payments in respect of Standards Fund grants to academies, and any transitional arrangements which are necessary. A further announcement on the methodology to be adopted will be made in the autumn of 2007.