



Walsall Council

Walsall Children's Services

Report to:	Schools Forum
Date:	15 June 2010
Subject:	Consultation on the Future Distribution of School Funding
Contact:	Julie Taylor (julie.taylor@walsallcs.serco.com)
Purpose of the report:	To appraise School Forum on the content of the national consultation document on the distribution of school funding issued March 2010, and to share the Council response to this document.
Recommendation:	To note the early direction of the funding review. As there is now a new government, the policies and principles underpinning the review may be subject to change.

1. Introduction

- 1.1 Since April 2007 funding for schools has been distributed to local authorities as a separate Dedicated Schools Grant (DSG) using the 'Spend Plus' methodology. Prior to this local authorities were funded through the Schools Formula Spending Share element of the Revenue Support Grant.
- 1.2 A number of local authorities chose to spend more than the Schools Formula Spending Share on their schools, and this funding was removed from those local authorities on 1 April 2007. At this time, the government decided to allocated DSG to local authorities using the spend plus methodology in order to avoid major funding turbulence for schools in these local authority areas.
- 1.3 During the last two years there has been a considerable amount of work undertaken at a national level to explore options that would enable school funding to revert back to a formula approach in line with relative need. The formula is intended to fund those pupils accessing education up to the age of 16.
- 1.4 This report briefly outlines the initial proposals for the new formula, and the Council's response to the Consultation Document. The development of this formula needs to be considered in the current economic climate and the state of the public sector finances.
- 1.5 Since the publication of the document a new government has taken office, and the policies governing the consultation document may now be subject to change.

2. Proposed Core Principles and Formula Structure

- 2.1 The proposed elements of the new formula are:

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| a. A basic entitlement | An amount given for every pupil regardless of any additional need and/or cost; |
| b. Additional Educational Needs (AEN), including deprivation | To recognise that some children need greater support in order to help them achieve their potential; |
| c. High Cost Pupils | To recognise that a small number of pupils have needs which mean that they cost significantly more to educate and support; |
| d. Sparsity funding | To recognise that in rural areas the Sparsity of the pupil population |

e. Area Cost Adjustment

makes it necessary to have more expensive, small primary schools; and To recognise that there are higher salaries and associated staffing costs in certain areas.

2.2 The principles of a distribution formula which meets the needs of the 21st Century Schools have been determined as:

- Recognition of the challenges faced by schools in narrowing the gaps in achievement
- Preparing every child and young person for life in an ever-changing world
- Fairness does not mean that everyone will get the same. Different costs pressures will impact across the county and different pupils need different levels of support to help them achieve
- Government can make valid assessments about need, but needs in individual schools are best assessed at the local level
- Differences in funding between local authorities must be justified using robust evidence
- A commitment to at least maintaining the current level of funding for deprivation
- By 2014-15 all money allocated nationally for deprived pupils reaches deprived pupils locally
- Local authorities to ensure that their funding for deprived pupils is responsive to change through the operation of Local Pupil Premium
- There will be protections at school and local authority level to reduce the level of short term changes to the distribution

2.3 Grant allocations will be calculated in four separate blocks

Block	Formula Elements Included
a. Early Years Settings b. Reception to Year 6	<div> Basic entitlement AEN Sparsity Area Cost Adjustment (ACA) </div>
c. Years 7 to 11	Basic Entitlement AEN ACA

d. High cost pupils

High Cost Pupil
ACA

3. Mainstreaming Grants

3.1 £4.5bn of school funding is currently allocated through specific grants, most of which can now be spent on any purpose of the school. The funding review has sought to mainstream as many grants as possible in to the DSG. The document proposes that the following grants should be included within the DSG, and therefore allocated via the new national funding formula:

- School Development Grant excluding specialist schools
- School Standards Grant
- School Standards Grant (Personalisation)
- School Lunch Grant
- Ethnic Minority Achievement Grant
- Extension of the Early Years Free Entitlement
- Extended Schools – Sustainability and Subsidy

3.2 The mainstreaming of grants will result in some movement in funding and will require local transitional arrangements to manage the impact on schools' budgets. For example there is a lumpy distribution of the School Development Grant, resulting in some schools receiving more than others.

3.3 The document refers to proposals for a new grant to support school improvement. This grant will be outside of the DSG and is intended to be funded by redirecting resources from the National Strategies and other central programmes, such as the National and City Challenge programmes.

4. Options to be Considered for each Formula Element

4.1 The Basic Element

4.1.1 The basic element is intended to cover the general costs of running schools and is the factor which allocates the most funding.

4.1.2 There are two potential methods of calculating the basic element

Option	Methodology
1. A judgemental approach	An assessment of how best to divide up the overall sum into its main formula components

2. A bottom-up approach

An activity led funding model, to determine costs of teaching, management etc.

- 4.1.3 There are advantages and disadvantages to both methods, but traditionally the education funding model has avoided the activity-led funding model as it is very complex to determine at a national level, and there are also some significant information gaps around early years, the use of resources or staff for both non-AEN and AEN pupils and the impact of sparsity costs
- 4.1.4 The judgemental approach requires fewer assumptions to be made as Section 251 data can be used to derive weightings between the educational phases. In the past this method has been thought to favour those authorities with more AEN or High Cost pupils, along with those attracting sparsity or Area Cost funding.
- 4.1.5 The move away from the spend plus methodology will create some movement of education funding, but it is difficult to predict the impact of the proposed funding models for Walsall LA which is in the middle of the funding league table.

4.2 Additional Educational Needs (AEN)

- 4.2.1 The proposals in the document support the previous government's commitment to increasing deprivation funding and a new requirement to pass all this funding on to schools with deprived pupils via a new mechanism, the Local Pupil Premium.
- 4.2.2 Price Waterhouse Coopers has undertaken extensive research to identify the needs of pupils to be funded through this formula element, see below:

		Pupil Percentages	
		Primary	Secondary
1.	Behavioural, Educational and Social Interaction (Deprivation)	9%	21%
2.	Home Environment (Deprivation)	42%	26%
3.	Cognition and Learning (Underperformance)	22%	29%
4.	Communication and Interaction (Flat rate)	9%	6%
5.	Sensory and Physical (Flat Rate)	2%	3%
6.	English as an Additional Language (EAL)	15%	12%
7.	Other (Flat Rate)	2%	3%
		100%	100%

NOTE

Excluding high cost needs, 23.7% of primary and 20.3% of secondary pupils have been estimated to have AEN, that is approximately 1.58 million pupils

4.2.3 For each of these needs a range of indicators will be used to allocate funding.

Deprivation Proxy	49.5%
Underperforming Groups	24.6%
English as an Additional Language	13.5%
Flat Rate per Pupil	12.4%

4.2.4 The table below details the potential deprivation indicators that are being considered to distribute 49.5% of the AEN funding to local authorities

Indication	Proportion of Pupils	Type of Measure
Pupils in families in receipt of Out of Work Tax Credit	20.6%	LSOA
Free Schools Meals Eligibility	16.0%	Pupil
Child Poverty Index (Out of Work Tax Credit plus children in households with incomes <60% of median income)	22.5%	LSOA
Local authority level IDACI scores associated with pupil postcodes	23.2%	LSOA
Free School Meals Eligibility plus additional 500,000 child in postcodes with lowest IDACI	23.4%	LSOA

4.2.5 The supporting data provided by the DCSF places Walsall in a similar position for all options, with possibly the Child Poverty Index or IDACI slightly favouring the borough's funding position. However without having the detail and the impact of relativity it is difficult to predict the outcome. Also, some of the data used in the examples is 2007 data, which is prior the recession and will not accurately reflect the current position.

4.3 The Local Pupil Premium

4.3.1 Across the country, local authorities are at different positions regarding the amount of deprivation funding passported to schools using deprivation factors. For 2010-11, Walsall's percentage of deprivation funding delegated to schools is calculated at 91%.

4.3.2 The Consultation Document states that local authorities will be required to pass on all their deprivation funding to deprived pupils in 2014-15 at the latest, and to make progress towards this target in each of the intervening years. The

Local Pupil Premium is the method by which the funding will be targeted to deprived pupils, and the money will be expected to move around the system as necessary.

- 4.3.3 The local authority will be responsible for developing its own Local Pupil Premium, with its Schools Forum, using indicators that best reflect local need.
- 4.3.4 The Local Pupil Premium will be required to operate on an annual basis, which is different from the system currently in place in Walsall. There will also be the potential for Schools Forum to agree to adjust the Minimum Funding Guarantee to allow deprivation funding to be moved between school as required, and consultation on the amendment of the necessary regulations will take place later in the year.

5. High Cost Pupils

- 5.1 Price Waterhouse Cooper (PWC) has undertaken research to inform the proposals included within the Consultation Document.
- 5.2 High cost pupils are relatively few in number and the PWC survey identified a national threshold of £6,218 as the point which cost increases significantly and the incidence falls. All pupils in non-mainstream settings are deemed high cost along with a further 98,000 pupils in mainstream settings. In total it is estimated that there are 218,000 high cost pupils nationally. The survey shows there has been a large increase in the number of high cost pupils in mainstream settings.
- 5.3 The document proposes the same approach for the allocation of the high cost pupil block to that proposed for AEN, based on the pupil need types identified by PWC, but using the specific data for high cost pupils.

AEN Type	High Cost Pupil	Need Incidence
Behavioural, Emotional and Social Interaction	25% Deprivation 75% Flat rate per pupil	26%
Home Environment	100% Deprivation	6%
Cognition and Learning	100% By not achieving more than level 2 at Key Stage 2	33%
Communication and Interaction	90% Flat rate per pupil; 10% Deprivation	18%
Sensory and Physical	80% Flat rate per pupil; 20% Disability Living	8%

	Allowance	
English as an Additional Language	100% English as an Additional Language	1%
Other	100% Flat rate per pupil	8%

6. Sparsity

- 6.1 The Sparsity factor aims to compensate those areas where there is no realistic alternative to maintaining small primary schools due to the population spread, typically rural areas. As a densely populated urban area, Walsall does not meet the qualifying criteria proposed in the options included in the document.
- 6.2 The document considers a broad option and a narrow option, and also makes it clear that there will be no recognition of secondary school provision within the sparsity factor.

7. Area Cost Adjustment

- 7.1 The Area Cost Adjustment (ACA) reflects the need for schools in some areas to pay higher salaries and to pay more to recruit and retain staff. The majority of this funding is allocated to authorities in London and the South.
- 7.2 Two options are being considered for determining the ACA:
- The General Labour Market (GLM) Approach
 - A new hybrid approach based on the specific costs of teachers and on the GLM for remaining elements
- 7.3 This is another complex area, which is difficult to assess in terms of monetary gains or losses across the country, particularly as the national quantum has still to be determined.
- 7.4 The General Labour market Model is more expensive as it captures more local authorities, including Walsall. The Hybrid approach would release some funding to increase the amount of distributed via the basic entitlement element.

8. Transitional Arrangements

- 8.1 The system proposed in the Consultation Document will realign funding between local authorities as a result of the cessation of the spend plus methodology and the mainstreaming of a number of specific grants. Therefore there will be transitional arrangements to provide local authorities and schools with time to prepare.
- 8.2 This approach will require local authorities to revise their local formulae to take account of the money that was formally in specific grants. As it is unrealistic to expect local authorities to have changed their formulas by 2011-12, they will be able to distribute funding as previous specific grant formula factors for 2011-13. In addition the Minimum Funding Guarantee would restrict the degree of movement towards new local formulae over the period. School Finance Regulations will be amended to enable this to happen.
- 8.3 In order to protect local authorities from significant potential losses in the formula, there will be per a pupil floor set above the Minimum Funding Guarantee for 2011-12 and 2012-13.
- 8.4 However, at this stage there is no proposal to have a cash in floor arrangement, which means that for some authorities that stand to lose by the formula and which also have declining pupil numbers, there will be difficult decisions to be made in order to reduce overall spending.

9. Further Considerations

9.1 Academies

Academy funding will be considered as the number of academies increases nationally. Issues to be thought through are whether the recoupment method based on a local funding formula continues, or whether a simple pupil number approach is adopted.

9.2 14-19 Funding System

The document concluded that the timing was not right to introduce a common 14-19 funding system. However, it was stated that the ambition remains over the longer term.

9.3 Exceptional Circumstances Grant

Views are being sought on the continuation of the Exceptional Circumstances Grant which enables those authorities who experience significant in-year

growth in the number of pupils, or significant growth in the number of pupils with English as an additional language.

9.4 Service Children

There is evidence to show that pupils of service families do well compared to their non-service peers. However, there can be difficulties for schools catering for service families as they are prone to pupil number and funding fluctuations, due to troop movements. The proposal is that claims could be made directly to the Department in such circumstances, and would be considered individually on merit.

9.5 Private Finance Initiative (PFI) Schemes

Not all local authorities have PFI schemes, and those that do are subject to wide variation, local authorities have completed questionnaires on this subject which will be analysed to consider whether PFI issues need to be taken into account in future distribution of funding among local authorities.

9.6 Home Educated Children

The Badman report on home education recommends that local authorities should give access to certain services to home educated children whom they do not otherwise fund.

A scheme has been proposed to allow local authorities to include home educated pupils as a 0.1fte on their DSG count where they are providing substantial financial support, for instance for SEN or the cost of a pre-16 pupil's attendance at an FE College.

10. Summary and Consultation

10.1 The former DCSF issued its lengthy and complex document in March 2010, reflecting the continuation of the policy of the former government .

10.2 This paper summarises the issues to be considered at this formative stage, before a more detailed consultation later in the year.

10.3 A general consultation response has been made on behalf of Walsall, a copy of which is attached, but given that the new government's plans and spending priorities are under development, there well may well be a change in policy direction.

Consultation on the Future Distribution of School Funding

Consultation Response

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

Yes, local decision making, fairness and transition are essential ingredients.

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

Yes, this will reduce bureaucracy as well as simplifying the funding system. These changes should help to improve financial planning at school level.

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

As the main blocks of the DSG remain unchanged, it is essential that the methodology and the data underpinning the blocks are reviewed to reflect a more updated and fair needs-led approach.

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

The ALF methodology, is complex but would ensure the fairest distribution of funding to ensure that the basic needs of all pupils, can be met. There would be a direct relationship between the basic expected level of service and funding. Schools are experienced at managing their budgets to meet their particular needs and they would not be influenced by the national formula.

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

PWC has undertaken extensive work to produce the detailed analysis of need that schools are currently dealing with, and the distribution indicators proposed are sensible.

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

Option 4, Average IDAC score of pupils educated within a local authority provides the most rounded reflection of local need and is less volatile than

out of work tax credits and free school meals, which can change significantly year on year.

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

Yes, based upon the PWC survey, and the relative size of the groups.

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

The responsiveness to the changes in characteristics of pupils at local authority level will be limited because of the multi-year budget periods. Guaranteed funding units will be determined upto three and a half years in advance, and will not reflect sudden changes, such as a significant increase in economic migrant families or a major recession. In particular the West Midlands has suffered over the last two years as a result of the national economic downturn, but this has not been recognised in the 2010-11 DSG.

At school level, the premium will be more responsive as it is reviewed annually. However, it will make medium term financial planning more difficult and could have staffing implications.

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

Yes. All local authorities are in a certain position regarding the delegation of funds to schools through deprivation formulae. A range of indicators will be used already, therefore each LA should review it's unique position and develop a way forward to best suit the local needs of pupils, in agreement with the Schools Forum.

10. Do you agree with the methodology for distributing money for high cost pupils.

Yes the proposals are reasonable and take into account external factors where appropriate.

11. Do you agree that the school census and Middle Super Output Area are the right data source and geography to use to access the sparsity on an area?

Yes, pupil census is the most upto date information available, and the middle super output area seems a fair geographic area for comparative purposes.

- 12. Which method for calculating the sparsity factor do you think will best enable funding to reach those local authorities that need to maintain small schools – the broad or narrow option?**

The narrow option appears to better address the problem. The broad option may distribute the resource too thinly across the country.

- 13. Do you agree that there should not be a secondary Sparsity factor?**

Yes as the new KS3 and 4 curriculum is encouraging more federation/collaboration and movement of pupils across the sector.

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

The ACA should be based on the General Labour Market as this has the broadest recognition of variances faced by all local authorities and schools.

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

Yes, as local authorities that need this flexibility due to the nature of their funding formulae will have time to work through their issues in a proper manner.

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

Floors should be paid for by the largest gaining authorities if this is affordable, as it is much easier to manage growth than any level of contraction.

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

The MFG is problematic when LAs are trying to realign funding according to need. There could be a number of exceptions to the MFG such as the implementation of a major formula review like the Early Years Single Funding Formula or a Special School funding review, which could then be regulated

by a period of transitional funding to control the impact of year on year changes, particularly for say Year 1 and perhaps 2 of the reforms.

There is no advantage to a local authority in creating unnecessary financial turbulence and educational instability, therefore authorities working through their Schools Forum should be able to address formula reviews without the added hindrance and cost of the MFG, which can in some instances negate the value for money efficiencies trying to be achieved.

In normal circumstances a limited MFG is useful and allows schools to plan ahead with a degree of certainty.

18. If a contingency arrangement for local authorities is to continue, funded from the DSG, what areas should it cover and what should the criteria be for triggering eligibility?

There should be no contingency arrangements for local authorities funded from the DSG. The maximum funding should be made available to schools who deliver the services on the front line. The majority of schools have accumulated balances which enable them to cope with problems in the short term, that is two terms.

19. Do you support our proposals for Service Children?

Yes, it is reasonable to compensate schools which may have fragile stability and sustainability issues where numbers have fallen significantly one year to the next as a result of armed forces movements.