

Members of the School Forum are requested to receive this report for information
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DCSF School Funding Unit – Extracts from Explanatory note for local authorities on the arrangements for School and Early Years Funding 2008-2011

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. A summary of the key decisions following on from the consultation were provided to Forum at their 11th September meeting. An explanatory note for local authorities has now been published which gives further detail on these arrangements. As the full technical document is some 43 pages in length, the following pages highlight the main points. The complete document can be accessed via teachernet: www.teachernet.gov.uk/schoolfunding2008to11

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**

1. Dedicated Schools Grant (DSG)

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. The DCSF 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 form.

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.

Calculation of DSG Allocations

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.

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.

2. School Budgets

Central Expenditure Limit

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.

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%

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.

Minimum Funding Guarantee

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

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

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, the DCSF have decided that MFG headroom should be set at 1% in 2008-09, but reduced to 0.8% for 2009-10 and 2010-11.

The 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 the DCSF expect schools to make across the CSR period. This will result in the MFG being set at a level that is substantially lower than 3.7% - the level for 2007-08. The DCSF will publish figures for the level of the MFG at the time of the school funding settlement.

Redistribution of Balances – 5% Levy

Allowing schools to carry forward revenue balances is a central feature of local management of schools. Carrying forward a balance can be a useful strategy to support future investment – particularly in the era of multi year budgets.

However, the overall level of school revenue balances continues to cause the DCSF concern. Over the past 7 years they have more than doubled, and stood at almost £1.6 billion by the end of 2005-06. The DCSF have started to take action on this requiring all local authorities to have a mechanism in their local scheme for financing schools which enables the authority to claw back excessive balances. The DCSF expect this measure will have some impact on balances, but intend to make further progress on this issue.

The have therefore decided to go ahead with the proposal to require local authorities to redistribute annually 5% of all surplus revenue balances.

This will be implemented through a change to the School Finance regulations which is proposed to work as follows for the financial year 2008-09:

- a. Local authorities will need to calculate the value of 5% of the most recent final revenue balance for each of their schools which has a surplus, and should take account of all sources of government funding (DSG, SSG, SSG(P), SDG and LSC grant), but not privately raised funds. As 2007-08 revenue balances will not be available until June 2008 or later, authorities will need to use revenue balances as at the end of the 2006-07 financial year, ie at 31st March 2007.
- b. The sums calculated under a. will be put into a pool, and added to the Schools Budget for distribution for 2008-09. The most straightforward approach would be to include the sum in the ISB, which would increase the total sum available for distribution through the formula. There would be no need to treat this sum differently from the rest of the ISB (through an additional formula factor) though it would be open to authorities to decide to do this in consultation with their schools forum.
- c. Finally, the value of 5% of the final revenue balance from 2006-07 will be deducted from each school's budget share for 2008-09.

It is the view of the DCSF that schools with large balances will lose modestly from the redistribution (but they will still have the great majority of their balances), whereas those schools with a small surplus or deficit would be most likely to gain from the redistribution.

The clawback mechanism for excessive balances is applied to a school's budget for the year immediately after the balance has been calculated: so an excess balance from 2006-07 will have been clawed back from 2007-08 budgets. The 5% redistribution will then be applied to the remaining balance for 2006-07, after the excess has been clawed back.

3. Reform of Early Years Funding

The paper distributed at the 11th September meeting gave some detail of the expectations around the early years funding reforms. The explanatory note offers more guidance on the context and objectives of the reforms, together with guidance on implementation. The DCSF have reaffirmed the staged approach to the reforms:

- 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.

Work has already started in Walsall on the costs analysis of our PVI providers and their representative on Schools Forum elected.

4. Schools Forums

Membership

The explanatory note confirms the changes to regulations to allow a wider representation on Schools Forum including:

Other members of school senior management team

Early years and PVI providers

The 14-19 Partnership

The guidance provides more detail for the support for early years representatives, including the establishment of an early years sub group.

Programme for Forums

As well as the regular consideration of formula funding issues, Schools Forums will be involved in local changes to funding arrangements over the CSR period. The DCSF expect 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
 - 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:
 - iv) 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
 - v) 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 those authorities who not implement in 2009.

5. Specific Grants

School Development Grant

The note refers to the arrangements for the main School Development Grant (SDG) and post-Leadership Incentive Grant funding (post-LIG).

Allocations to local authorities

Main SDG

The allocation of main SDG to local authorities will be based on the 2007-08 baselines. The baseline will be increased on a per pupil basis, each year, in line with the level of the minimum funding guarantee (MFG).

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

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

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.

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.

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.

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. The differential will be monitored by DCSF. 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. This will demonstrate the distribution of main SDG against relative deprivation, in each year.

Where the differential has narrowed between the two years, the Department will ask the authority for an explanation.

School Standards Grant and School Standards Grant (Personalisation)

School Standards Grant (SSG)

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))

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 FSM 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.