

## **EXECUTIVE SUMMARY**

In March 2010 the Department for Education (DFE) issued a consultation on proposed changes to the distribution of school funding through the Dedicated Schools Grant – how Wirral receives its share of schools funding. These changes would be introduced from the start of the next funding period in 2011-12. The consultation paper asked authorities a number of questions and had a response date of 7<sup>th</sup> June. The questions and responses agreed by a group of the Schools Forum are attached.

Whilst this paper is predominantly about national changes, the outcome will have implications for the local scheme. Schools will be consulted on any proposed formula changes in the Autumn Term. The outcome will be the subject of a further report.

### **1.0 Background**

Schools are funded through the Dedicated Schools Grant (DSG), a grant, introduced in 2006, that is ring-fenced to the schools budget. In 2010-11 Wirral will receive DSG totalling £184m.

The current national distribution of grant is based on spend patterns in local authorities in 2005/06. Each year the DCSF have added amounts to grant allocations to reflect government priorities. These have included:

Making Good Progress, Early Intervention and support for groups of children at risk of poor outcomes.

Now that the DSG is established, the Department wants to return to a funding formula to distribute DSG that best reflects the current needs of pupils.

The proposed new DSG formula has five elements used to distribute national schools funding. These elements (which are broadly similar to previous pre DSG formula) are:

- basic entitlement
- additional education need (AEN)
- high cost pupils
- sparsity
- area cost adjustment

### **2.0 Formula Principles**

The document sets out the main formula funding principles for schools.

“The school funding system must support schools to prepare all children for adult life and help schools narrow the gaps in achievement that exist, particularly between deprived and non-deprived pupils. The formula should reflect that different pupils need different levels of support and that different areas will have different cost pressures”.

### **2.1 Mainstreaming Grants**

The Department's intention is to mainstream other school specific grants into DSG including:

School Standards Grant	£10.7m
School Development Grant	£16m
School Lunch Grant	£0.5m

Ethnic Minority Achievement Grant	£0.2m
Early Years extension	£1.7m
Extended Schools sustainability and subsidy	£2.4m

There are no details of the implications of these proposals for local authorities. The above total £31m for Wirral.

The view of the Forum group was that specific grants were a better way of targeting grants and not knowing the implications of change it is preferable to keep the existing grant structure.

## 2.2 Formula Elements:- (1) Basic Entitlement

This element is intended to cover the general running costs of the school (about  $\frac{3}{4}$  of DSG). There are two approaches to its calculation:

- Judgement – mainly based on historic spending in different areas
- Activity led – assessment of school needs.

Activity led requires detailed information covering many areas such as class size, non-contact time, support staff and premises costs. Information is limited in some areas such as Early Years and still requires assumptions / judgment about the apportionment of time and costs. Work on Activity led funding did not include centrally retained local authority services.

## 2.3 Formula elements:- (2) Additional Education Need (AEN)

This element is intended to meet high incidence / low cost needs for a large number of pupils, mainly in mainstream schools. It is the means to ensure that the Funding Formula reflects disadvantage. Evidence nationally suggests that 24% of primary and 20% of secondary pupils have AEN. The types of AEN identified are:

AEN Type	Formula distribution by	% of AEN
Behavioural, Emotional and Social	Deprivation	13
Home Environment	Deprivation	36
Cognition and Learning	FSM and underperforming groups	25
Communication and interaction	Flat rate	8
Sensory and physical	Flat rate	2
English as an additional language	EAL	14
Other	Flat rate	2

Distribution of AEN using deprivation indicators will account for 50% of the total AEN allocation. The options to calculate deprivation are:

- Out of work tax credit.
- Free School Meals (FSM).
- Child poverty index (including households with less than 60% of median income).
- Income Deprivation Affecting Children (IDACI) based on local authorities scores of pupil postcodes.
- FSM plus children in postcodes with lowest IDACI.

Free School Meals targets deprivation to the smallest population of pupils (16%) whilst FSM plus IDACI targets funding is the broadest (23%).

Wirral's local funding formula is a combination of FSM and Index of Multiple Deprivation (IMD).

The Overview and Scrutiny Committee have been undertaking a local review of school deprivation funding and have met with a number of schools and governing bodies. A report is expected shortly, this will help inform any further changes that are required.

The preference for Wirral is to use FSM as a proxy for deprivation. This measure is widely accepted by schools, local authorities and nationally for performance indicators. The data is regularly updated and is responsive to changes in pupil numbers and circumstances

## **2.4 Local Pupil Premium**

Local authorities, encouraged by DFE, have been working to ensure that all deprivation funding is targeted appropriately. By the end of the next parliament the expectation is that 100% of deprivation funding should be passed on and used to support deprived pupils. Deprivation funding should relate directly to deprived pupils and from 2012-13 should move around as necessary through a local pupil premium.

The government's planned National Pupil Premium, to be introduced in the next funding period, may now replace this section.

## **2.5 Formula elements:- (3) High Cost Pupils**

This formula element takes account of a small number of high cost pupils. These pupils are often statemented and educated in maintained or independent special schools.

Work nationally has identified that:

- There are a number of high cost pupils in mainstream settings (this is much higher than previously identified);
- costs have increased more rapidly for these pupils than costs in other parts of the school system. (The national total for high cost pupils is £3 billion, but £4 billion is being spent.)

From data gathered the block will be distributed mainly by a flat pupil rate. Other factors will include pupil attainment and deprivation.

## **2.6 Formula elements:- (4) Sparsity**

DCSF accept that some (mainly Shire) authorities have no alternative to maintaining small primary schools. Having a high proportion of small schools will be relatively more expensive.

The funding options are:

- a broad option where 104 authorities would receive additional funding
- a narrow option where 66 authorities would receive additional funding.

The Forum response did not disagree with sparsity within the formula however commented that the element is not as significant as others such as AEN.

## **2.7 Formula elements :- (5) Area Cost Adjustment**

The Area Cost adjustment (ACA) reflects the need for schools in some areas to pay higher salaries and pay more to recruit and retain staff.

These can be included within a formula by using:

- The General Labour Market (the current method). This takes account of wage costs in different areas of the country.
- London weighting payments to teachers and other staff
- Identifying the cost of living in different areas
- A hybrid based on the actual variation in teacher costs across the country and the general costs of non-teaching staff, recruitment and retention.

## **2.8 Transition**

These formula changes, including mainstreaming grants, are likely to result in significant changes in the distribution of funding to authorities. In addition the changes in specific grants will require changes in local school formulae.

The consultation proposes setting a Minimum Funding Guarantee for all schools in 2011-12. Authorities would be protected from grant losses by a per pupil floor (set above the level of the Minimum Funding Guarantee). This would set a limit below which grant per pupil could not reduce and would be paid for by a ceiling on grant increases. An overall cash floor is not intended (this will prevent authorities with falling rolls moving to the formula.)

## **2.9 Other proposals**

A number of other minor changes are being considered which impact on specific authorities:

- an Exceptional Circumstances Grant for significant growth in pupil numbers or English as an Additional Language
- Movement of Armed Service children.

## **3.0 Financial Implications**

The financial implications of these changes will be announced by the DFE later in the year.

## **RECOMMENDATION**

That:

The Forum note the response to the consultation paper.

**Howard Cooper**  
**Director of Children's Services**

## **DFE Consultation on the Future Distribution of School Funding Response by Wirral Schools Forum 28<sup>th</sup> May 2010**

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

The Council vision is for a 'more equal and prosperous Wirral' and to narrow the gap that presently exists. This view is endorsed by the Schools Forum. The funding principles described are and have been a central feature of the Wirral Schools Local Funding Formula.

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

Schools Forum accept that mainstreaming grants would simplify the funding structure for schools. However since specific grants are a better way of targeting resources to priorities and in the absence of any further details regarding distribution the Forum would prefer to retain the existing grant structure.

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

These elements are broadly similar to previous national education funding formula pre DSG. All elements are relevant and we would not disagree with any, however it would be useful to know the weightings that these would have.

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

Both methods will continue to require judgment to calculate / apportion costs. Whichever method is chosen it is important that data should be kept up to date and give predictability as regards to future funding. The Forum are concerned about the additional work and costs involved for Activity Led funding

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

Yes.

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

The DFE has only published limited data to illustrate these proposals, therefore the impact of changes are difficult to evaluate at a local level. Whilst broadening funding will spread the resources over more children with AEN this may as a result also be less targeted.

The preference for Wirral is to use FSM as a proxy for deprivation. This measure is widely accepted by schools, local authorities and nationally for performance indicators. The data is regularly updated and is responsive to changes in pupil numbers and circumstances.

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

Yes.

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

It is noted that this area is likely to change following the publication of the Coalition Programme.

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

The Forum agree that a pupil premium would be useful if done in the right way and that it should be developed locally using local knowledge to target funding effectively.

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

The Forum would like the amount actually spent on High Cost Pupils to be built into the funding formula. A significant element of this formula will rely on KS2 data continuing to be available.

- 11. Do you agree that the school census and Middle Super output Area are the right data source and geography to use to assess the sparsity of an area?**

No comment.

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

Although we would not disagree with sparsity within the formula this element is not as significant as others such as AEN. All authorities have small, expensive schools, resulting in a need for greater efficiencies, cost sharing, partnerships and federations.

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

No comment.

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

The ACA within the DSG formula should be consistent with the element in Revenue Support Grant.

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

Yes, transition arrangements should ensure that no authority should significantly lose or gain over the next funding period from changes to DSG. The decision about a cash floor should take this into account.

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

Transition arrangements should ensure that no authority should significantly lose or gain over the next funding period from changes to DSG. The decision about a cash floor should take this into account.

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

The Minimum Funding Guarantee works best when triggered by as few schools as possible. On Wirral there are now very few schools that trigger the MFG. It would be disappointing if changes in funding caused more schools to be funded at the minimum since it could make a local formula irrelevant.

**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?**

No comment.

**19. Do you support out proposals for Service children?**

No comment.