

**DfES Consultation on
“School, Early Years and 14-16 Funding 2008-11”**

Report of the Director of Children, Schools and Families

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1. Purpose

- 1.1 To provide information about an ongoing consultation being undertaken by the DfES relating funding arrangements for schools and early years providers from Summer 2008.
- 1.2 To invite members of the Forum to attend a special one-item agenda meeting to provide advice to the Authority in preparation of the response to the consultation, and to consider whether to make a separate response from the Hertfordshire Schools Forum to the consultation.

2. Background

- 2.1 On 7 March the DfES published a consultation on “School Early years and 14-16 Funding 2008-11” which closes on 1 June 2007. The consultation documents can be found on the Teachernet web site at: <http://www.dfes.gov.uk/consultations/conDetails.cfm?consultationId=1466>
The DfES launched the consultation by means of regional conferences to which representatives from each Authority were invited.
- 2.2 The consultation is concerned with a variety of proposed changes to school funding arrangements. It includes proposals on:
 - DSG distribution to Authorities;
 - the future methodology and level of the Minimum Funding Guarantee;
 - school balances;
 - funding for deprivation to local authorities and to schools;
 - changes to the composition and powers of Schools Forums; and

- some very limited simplification of specific grants.
- 2.3 It also seeks views on the funding arrangements to support the delivery of two key education reforms:
- the extension to 15 hours of free entitlement to early years education; and
 - the entitlement to Specialised Diplomas at KS4.
- 2.4 The DfES further require all Local Authorities to complete a questionnaire by 18 May detailing how they allocate and distribute funding for the free Under-5 entitlement to maintained schools and to private, voluntary and independent providers. This is intended to provide a database which will help to inform decisions about the future arrangements for Early Years funding.

Key Issues

3. Distribution of DSG - Spend Plus or Single Formula
- 3.1 For 2006-08, DSG was distributed to Authorities on a basis which the DfES describe as "Spend Plus". Funding for each Authority was based on their 2005-06 Schools Budget plus 5%, plus a number of additional allocations in line with Ministerial Priorities:
- Personalised Learning Funding in Primary Schools and at KS3;
 - Practical Learning Options Funding at KS4;
 - The final phase of workforce reform in primary schools;
 - Expansion of Early Years provision; and
 - Additional funding to Authorities who spent below Schools Formula Spending Share in 2005-06.
- 3.2 Hertfordshire received some funding from the first four of these priority areas, but not from the fifth as this Authority funded schools by some £2.26 million more than the Schools Formula Spending Share (SFSS) in 2005-06. It is important to note that, although the Authority considered this enhancement vital in order to protect school budget shares, the DfES view remains that SFSS is an accurate and effective model for distribution of funding between Authorities. Regrettably the past year on year increases in total school balances has made it easy for the DfES to counter any argument from Hertfordshire on this point.
- 3.3 The DfES consultation gives particular attention to the question of whether future allocations of DSG should continue to be based on the "Spend Plus" model, or should instead be based on a formulaic allocation. It is clear, as the DfES paper argues, that the Spend Plus approach cannot be sustained indefinitely, and that at some point it will be necessary to move to a formulaic derivation. However the only formula option offered by the consultation document is a return to the Schools Formula Spending Share methodology.

- 3.4 If this option is adopted, the amount by which this Authority funded schools above SFSS will be progressively withdrawn from the DSG allocations. It is important to note that not only would this funding be lost from Hertfordshire school budget shares, it would be lost to the Authority as a whole because it will be utilised by the DfES to increase the DSG allocations to those Authorities who had previously decided to fund their schools below SFSS, presumably in order to protect other services.
- 3.5 The Authority expects to argue strongly in response to the consultation that reverting to the SFSS basis would unfairly penalise Hertfordshire, and may offer counter suggestions. Most other shire Authorities are in a similar position and likely to make similar comments. However, many metropolitan and unitary Authorities and London Boroughs stand to gain significantly from a move back to SFSS, and are therefore likely to support that option.

4. Distribution of DSG – Single Pupil Count in the Autumn Term

- 4.1 The allocation of DSG to Authorities in 2006-08 was based on the January pupil count. A consequence of this methodology is that school budget shares have to be finalised before the total quantum of funding available to each Authority is known. A number of Authorities found the number of pupils included in preparing their budget was significantly different to the final numbers announced by the DfES in May (or in some cases later). The Authorities concerned either carried forward a deficit balance to the following year, or in a minority of cases reissued school budget shares.
- 4.2 The introduction of a termly census for primary schools from Autumn 2007 makes it possible to base the DSG allocations for 2008-11 on autumn 2007 pupil numbers in maintained schools. The DfES are therefore consulting on a proposal to move the pupil count for funding purposes to the autumn term in all provision funded from the Schools Budget. The DfES state that this would enable them to finalise DSG allocations before school budget shares are published. The DfES would intend to amend the School Finance Regulations so that school budget shares are also based on the autumn term pupil count.
- 4.3 Although Hertfordshire has made accurate pupil number estimates, and therefore has not suffered the adverse consequences experienced by some Authorities, it is clear that this change would provide increased certainty and therefore represent an improvement for schools with a single admission date, such as the secondary, middle and junior schools in Hertfordshire.
- 4.4 However, there is major concern about the impact on schools with two admission dates. Any pupils on the roll of a school at the autumn pupil count would have to be funded for the whole of the following financial year. This would put the Admissions process under pressure from

schools which wish to admit all Nursery and / or Reception pupils at the start of the Autumn term; in particular it may be possible for Foundation and Voluntary Aided schools to amend their admissions criteria to achieve a single admission date regardless of the Authority's policy on school admissions to Community and Voluntary Controlled schools. This would plainly be inequitable between schools, particularly in areas where primary school pupil populations are falling.

- 4.5 Furthermore there is likely to be an adverse impact on the total DSG allocated to this Authority if the two admission dates are retained, since the number of pupils in maintained schools at the census date would be lower than in the past. The DfES consultation document recognises this possibility but suggests only that "the DfES will review allocations to identify any systematic impact" of the change, which could lead to an adjustment to the autumn count in primary schools.
- 4.6 The *de facto* outcome will be an increased pressure on both schools and the Authority to move to a single admission date, regardless of the existing policy based on the educational implications. However, if the Authority were to move to a single admission date, there is no prospect of an increase in the per pupil rate of DSG for the Nursery / Reception age pupils admitted to schools, so there would be no additional funds which could be passed on to school budget shares.
- 4.7 In response to the consultation, the Authority expects to object to the pressure to move to a single admission date, and to the consequent risks to DSG totals and school budget shares. We will seek appropriate safeguards in any future School Finance Regulations to ensure that the two admission dates policy can be sustained where Authorities choose to operate such a policy.
- 4.8 Members may wish to note that a review of Early Years Admissions policy in Hertfordshire has recently commenced, which may have an impact on future admissions and therefore funding arrangements.

5. Minimum Funding Guarantee

- 5.1 Since introduction of the Minimum Funding Guarantee (MFG) the DfES has endeavoured, with a fair degree of success, to set it at the level of anticipated average cost pressures. The consultation proposes a number of actions which might be taken to reduce the level of the MFG and therefore the amount of the guaranteed funding level in schools
- 5.2 In 2006-08, the percentage increase in DSG was at least 1% above the MFG in all Authorities. This provided some headroom within the DSG over and above meeting the cost of the MFG, which enabled changes in the funding formulae to deliver changes in school budget shares. The DfES are now proposing to reduce the 1% margin between the MFG increase and the DSG increase. This will make it much more likely that schools budget shares will be based on the MFG rather than

the result of the formula, and will reduce or eliminate any headroom. This would prevent any changes in the formula arrangements affecting school budget shares.

- 5.3 The consultation also proposes that in future, the MFG increase should take into account target efficiency savings in the non-pay elements of schools' expenditure. No indication is given of the level of efficiency savings which the DfES expect schools to achieve.
- 5.4 The consultation further proposes that in future the MFG could be set below the level of average cost pressures less efficiency savings. The consultation states that this would free resources within the Individual Schools Budget to target Ministerial Priorities such as funding for deprivation and expansion of Early Years provision, however if the DSG headroom does not provide significant additional funding above meeting the MFG it is hard to see how any such resources could be available.
- 5.5 Members should note the explicit intention of the DfES (combining both the reduction in the MFG and the reduction in the margin of DSG above MFG) not to fully meet inflationary pressures in schools in the forthcoming multi year funding period 2008-11. This appears directly at variance with the policy direction on school funding announced by the Chancellor during his Budget speech in March.
- 5.6 As noted in the joint LSC/DfES consultation document relating to the funding arrangements for school sixth forms, the LSC is proposing a package of changes which will result in the per pupil funding for school sixth forms declining by approximately 2.7%. It seems likely that this decrease will be sufficient to trigger MFG allocations to schools with sixth forms in order to make good the decrease in funding. The MFG allocation will be drawn from DSG, which seems wholly inappropriate.
- 5.7 In response to the consultation, the Authority expects to object to any continuation of the Minimum Funding Guarantee, and (if its removal is not achieved) to welcome any reduction in its scope. We will argue that inclusion of LSC funding in the MFG calculation is inappropriate. We will also argue that inflationary pressures on schools should be met in full, unless specific savings which can be readily and efficiently obtained by schools are identified by the DfES.

6. School Balances

- 6.1 Further to recent directives regarding clawback schemes, the DfES consultation proposes that a 5% levy should be implemented on any surplus balance held by a school. The consultation envisages that this broadly equates to the interest a school is likely to earn on such a balance.

6.2 In response the Authority expects to comment that this would have little additional effect over and above the impact of the clawback scheme. We may also suggest that a minimum levy value should be set below which the levy would not be actioned, so as to avoid the generation of a number of very low value transactions in respect of schools with small surpluses.

7. Schools Forum

7.1 Several proposals affecting the composition of the Schools Forum are made in the consultation documents. It is proposed that school Bursars or Finance Managers should be able to become school's members of the Forum. It is also proposed that the current limit that no more than 20% of Forum members should be non-schools members should be raised or removed, and that all Authorities' Schools Forums should have representatives from the Early Years sector and from 14-19 partnerships.

7.2 In response the Authority expects to comment that it is important that all members of the Forum are able to take an informed strategic view of the matters under discussion; that it is important that existing good practice is not undermined by over expansion of the size of the Forum; that it may take some time before new members are fully involved with the work of the Forum; and that it should be for each Authority and Schools Forum working in partnership to agree an appropriate composition.

7.3 The consultation also suggests that in future both primary and secondary sector representatives should agree any proposal before it can be adopted. No clear reason is given why such a veto should be reserved only for the primary and secondary sectors thus excluding special schools, Early Years providers, the LSC and any other representatives.

7.4 In response the Authority expects to argue that it is inappropriate that such a veto should be given to any sector, and that all members of the Schools Forum should be required to act in the best interests of the Every Child Matters agenda throughout the Authority area as a whole. (This would be similar to the existing requirement placed on school governors, which is broadly that all members of a school governing body must act in the best interests of the school as a whole.)

8. Early Years Funding

8.1 The consultation document makes a variety of detailed proposals relating to funding for Early Years. The key proposal is that over the multi year funding period there should be a significant convergence between the funding arrangements for Early Years provision in PVI providers and the funding arrangements for Early Years provision in

maintained schools. The DfES review has concluded that there is no argument to move school funding in the direction of sessional funding for actual take up, and therefore recommends that other providers should be funded on a basis more closely associated with the funding formula for schools.

- 8.2 The consultation document recognises that it would take some time, possibly more than the forthcoming three year funding period to fully achieve a single funding formula for early years, however the various proposals are likely to have some impact on school funding formulae as well as the funding arrangements for PVI providers.
- 8.3 The consultation also proposes that funding for Early Years provision should be separately earmarked within the DSG.
- 8.4 In response the Authority expects to argue that not all PVI providers will be sufficiently stable in their management arrangements to justify an annual allocation of funding, and that earmarking of any element of DSG would be a retrograde step which would limit the ability of the Authority and the Schools Forum to direct resources to the greatest needs.

9. Simplification of Specific Grants

- 9.1 The DfES consultation document gives considerable attention to the prospects for simplification of grant funding streams, but makes only a modest proposal to merge the School Standards Grant and the School Standards Grant (Personalisation). As the SSG(P) was an unnecessary complication introduced little more than a year ago, it seems inappropriate to represent this as a simplification.
- 9.2 In response the Authority expects to argue that all funding currently provided through SSG, SSG(P) and the non-earmarked elements of Standards Funds Grants should be transferred into DSG and therefore into the main school budget shares without further delay. If necessary this should be accompanied by a transitional protection mechanism over the three year period to reduce turbulence in school funding.

10. **Next Steps**

- 10.1 The Authority is currently working on the detailed aspects of the DfES consultation document. Due to the length of the document, and the complexity of some issues, this will require further time to complete. Following this review stage, a draft response will be compiled and agreed with the Directors and Executive Member.
- 10.2 It is anticipated that a draft response from the Authority will be available for detailed discussion by mid May. Accordingly we propose an additional single purpose meeting of the Forum to further discuss the

proposed response from the Authority to the consultation, and to either gain the formal endorsement from the Forum or to agree a separate response on behalf of the Hertfordshire Schools Forum. The DfES questionnaire relating to the funding methodologies for Early Years provision in maintained and PVI settings would also be available for this meeting.

- 10.3 Members are therefore asked to indicate whether they would be willing to attend a further meeting between 21 and 31 May. The Authority recommends 23 May as an appropriate date.
- 10.4 It is anticipated that many schools might wish to comment on aspects of the consultation, particularly the intention to provide funding increases below inflationary pressures as summarised in paragraph 5.5. The advice of the Forum is sought on the best approach to generating a strong response from Hertfordshire schools.