

Consultation on the future distribution of school funding

June 2010

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1 General

- 1.1. CIPFA welcomes this opportunity to respond to the DSG review consultation document. CIPFA also welcomes the fact that this is about the principles of the new formula; this allows all stakeholders to comment without being fettered by monetary values or individual LA allocations. However, having said this, all stakeholders will need to know the financial implications of the outcome of the consultation well before implementation in April 2011 in order to plan.
- 1.2 CIPFA hopes that these principles will be observed consistently in all of the individual decisions on the operation of the DSG formula, for example, paying for the cost of floor protection from all authorities, so that the increases for Local Authorities with the highest needs are not depressed to the detriment of those very pupils that it is intended to help.
- 1.3 We note that consultation did not include Schools Budget : Local Authority Budget in its terms of reference
- 1.4 Turning to the principles of the proposed new formula and the options available, as set out in the consultation document, CIPFA's views are as follows:

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

- 2.1 CIPFA welcomes the Government's aim in seeking to return to a formula-based method of allocation in 2011, so that allocations better reflect actual characteristics of pupils.
- 2.2 The current Dedicated Schools Grant methodology is based on a spend plus basis which is basically the last year's guaranteed unit of funding (GUF) per pupil only increased by agreed cash increases or funding for new government initiatives. None of the other data that drives funding has changed and is now some 10 years old and some of the AEN data goes back to the 1991 census. And the census is in some cases so far out of date as to be virtually useless due to new developments and area clearances over the last decade. Therefore CIPFA agrees that it is appropriate for the Department to review and to move forward from the current simple funding methodology which has little relationship to current provision within Local Authorities.
- 2.3 A key concept which is one of the current principles that underpins the DSG is that of "fairness". The Department, in their consultation document, comment that "fairness" does not mean that everyone will get the same. Instead it must reflect the country's demographics; different areas have different cost pressures and those different pupils need different levels of support to help them achieve. CIPFA considers that most Local Authorities are likely to agree with this - but it will lead to redistribution and as ever, there will be "winners" and "losers" in this.
- 2.4 The Department still considers that Local Authorities are in the best position to distribute money at a local level through local funding formulae; therefore, currently there is no intention for a national formula. CIPFA supports this view.
- 2.5 In moving away from the current spend plus methodology to one based on up-to-date data, CIPFA points to the need for that data to be robust if it is to justify differences in funding between LAs - this would be a requisite in any funding formula.
- 2.6 CIPFA is pleased to see that in implementing the above changes, there are proposed transitional arrangements in order to reduce turbulence and instability.
- 2.7 CIPFA supports the proposed local pupil premium for pupils with Additional Educational Needs (AEN), which will mean funding will follow the pupil just as it does currently with

pupils of Special Educational Needs (SEN), though we note that this will add further complexity to the local funding formula.

- 2.8 However, while CIPFA would support the above proposals in principle, we would like more detail and clarification in order to be able to understand better how these proposals would work, particularly around the local pupil premium and how the funding will follow the pupil. If a new formula is to be used from 2011 on, CIPFA suggests that the Department really needs to provide exemplifications as soon as possible so that authorities are able to plan accordingly

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

- 3.1 Yes, CIPFA welcomes the proposals to mainstream specific grants. This will give local authorities greater flexibility to spend according to local priorities. The Department will be aware that in our responses to previous consultations CIPFA has consistently argued for greater local discretion. CIPFA hopes however that any transition arrangements for mainstreaming grants will help minimise distributional turbulence.

- 3.2 On a point of detail, CIPFA suggests that the schools finance regulations will need to allow the centralised element for ethnic minority achievement as a central service within the Schools Budget. This is because we understand that in some authorities these needs are real but dispersed and variable, leading to some schools being unable to build sufficient capacity on their own to meet the needs.

- 3.3 CIPFA would urge that the transfers involved in mainstreaming should be made transparently for each authority, so that all can see the amounts being transferred (as was the good practice followed on introduction of DSG in the first place).

4 Question 3: Do you agree with the proposed elements of the formula?

- 4.1 Yes, CIPFA agrees with the move to using more robust data and to the proposed elements of the formula.

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

- 5.1 In our view, this is not an easy question to answer. A judgemental approach based partly on historic patterns would probably disadvantage some authorities where before DSG was introduced they were spending over their Formula Spending Share amount for education on schools. And it is not clear what the weightings would be between blocks.

- 5.2 Overall, CIPFA supports an Activity-Led Funding (ALF) approach for calculating the basic entitlement though we recognise that developing an ALF approach is complex. However, an approach based around a detailed assessment of schools' activities costs would be more readily understood than a judgemental approach and the ALF is currently used by some local authorities' Schools Forums to allocate funding for individual schools.

- 5.3 However, CIPFA suggests that the issues around its practicality should not be underestimated. ALF is very complex and likely to require much data collection to enable the calculations to be made.

6 Question 5: Do you agree with the proposed methodology for distributing money for additional educational needs?

- 6.1 CIPFA agrees that Additional Educational Need should be considered separately from basic entitlement and supports the use of more robust data and a wider basket of needs (apart from deprivation).
- 6.2 It will be important, however, to ensure that the data used is robust. For example, the “underperforming groups” indicator in the proposed approach to cognition and learning might be less robust than other, direct low attainment indicators.

7 Question 6: Which is your preferred indicator for distributing money via deprivation? Why?

- 7.1 CIPFA has reservations about an indicator (option 1) which measures by families in receipt of Out of Work Tax Credit, as it may under-represent the number of pupils from deprived backgrounds in some areas, particularly rural ones.
- 7.2 Similarly, option 2 is an indicator based on free school meals (option 2) but because of variations in the take-up of school meals – and not all schools provide a school meals service – we would prefer such an indicator, if chosen, to measure pupil *entitlement* to Free School Meals rather *pupil take-up*.
- 7.3 Overall, we would tend to prefer option 5 as the proxy that closely matches deprivation incidence.

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

- 8.1 CIPFA broadly supports the indicators with the exception of the definition of under-performing group for the Learning AEN type.

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

- 9.1 While CIPFA welcomes the approach of a local pupil premium, it is difficult to comment further without understanding better how it will work, with a new Government which has yet to set out its detailed proposals. We would however emphasise the importance of any pupil premium being based on robust and up-to-date data which can accurately identify the relevant pupils in each local authority.

10 Question 9: Is it right that local authorities should each develop their own pupil premium mechanism?

- 10.1 CIPFA supports local decision-making where possible and would therefore prefer that local authorities should each develop their own pupil premium mechanism. Some guidance would however probably be desirable and arrangements may be needed for recoupment following cross-boundary transfers.
- 10.2 There would however be issues around the “how” of a Local Pupil Premium. Schools will expect to receive it when they admit the pupils but there will inevitably be time lags and

unless there is some form of recoupment, it is difficult to see how funding will follow the pupil.

11 Question 10: Do you agree with the methodology for distributing money for High Cost Pupils?

11.1 CIPFA welcomes the recognition of the many factors which affect the types of need of High Cost Pupils. We have the same concerns about the indicator for deprivation as under Question 6.

12 Question 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?

12.1 CIPFA agrees with this approach as these data sources should yield more accurate and up-to-date data.

13 Question 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?

13.1 On balance, CIPFA favours the narrow option as the one more likely to direct the additional funding to those authorities where it is most needed.

14 Question 13: Do you agree that there should not be a secondary sparsity factor?

14.1 In CIPFA's view, it is not possible to agree or disagree without further information/research.

15 Question 14: Which is the fairest method of applying the Area Cost Adjustment?

15.1 CIPFA notes that the department for Communities and Local Government is due to consult the ACA methodology with regard to general formula grant. To have two different methodologies might unnecessarily complicate funding so CIPFA suggests awaiting the outcome for general formula grant.

16 Question 15: Do you support our plans for the transitional arrangements for mainstreaming grants?

16.1 CIPFA supports the transitional arrangements for mainstreaming grants provided that the specific proposals and their implications are made clear to local authorities at the earliest opportunity.

17 Question 16: Should floors be paid for by all local authorities or just the largest gaining authorities?

17.1 Inevitably there will be winners and losers in either case.

18 Question17: Do you have any suggestions as to how the Minimum Funding Guarantee could be improved?

18.1 CIPFA is aware that the Minimum Funding Guarantee causes problems for many and that there are arguments for removing it altogether. On the other hand it is clearly liked by many schools. If it is to stay, as CIPFA favours local flexibility to make local decisions, we would support changes to the Minimum Funding Guarantee which would improve decision making flexibility for Schools Forums.

19 Question 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?

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20 Question 19: Do you support our proposals for Service children?

20.1 CIPFA supports the aims of proposals for Service children. However, unless additional grant is forthcoming, other schools/authorities are liable to lose out.

21 Any other comments?

21.1 We would urge the Department not to underestimate the practical difficulties involved if all the necessary data for the deprivation and pupil premiums is to be collated in sufficient time so as not to delay the publication of the DSG. At the moment, the DSG tends not to be published for the current financial year until well into June, i.e. more than 2 months after the start of the financial year - yet authorities are to provide schools with their delegated budgets by 31st March.

21.2 One suggestion that we have seen is that for the deprivation indicator perhaps there may be a way of building on the good work that DCSF did when it set up the Hub? This collects eligibility for Free School Meals (FSM) from a variety of different agencies including tax credit data. While authorities can only interrogate this database by claimant NI number and then only receive a "match" or "no match", the Government may be able to interrogate in other ways – specifically it should already know how many households would be eligible for FSM across England as a whole. This could then be combined with Child Benefit claimants (ie number of children of school age in the household) to establish the children eligible for FSM in all authorities. However if data from indices is to be used it will need to ensure that the basis reflects those pockets of significant deprivation which can crop up in any authority area.

21.3 The Government's encouragement to schools to become academies will impact on the consideration of DSG methodology and CIPFA would like to draw attention to the danger of diseconomies of scale in the transfer of "central" expenditure, both as it impacts on academies themselves and on funding for those schools remaining with local authorities. CIPFA understands that the current system of "recoupment", which allowed local authorities councils to retain an element of the DSG (representing an academy's contribution to central services) is due to end next year. A continuation of this system would be helpful.

- 21.4 Overall, CIPFA would urge that safeguards will be needed as the number of academies increases, not least in order to reflect local authorities' responsibilities under '*Every Child Matters.*'
- 21.5 It seems very likely to us that falling rolls will become an increasing issue with the Government's planned increase in the number of academies and other directly funded schools.
- 21.6 Could Devolved Formula Capital be made less constrained or perhaps released to general funding?



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