

To:  
All Headteachers  
Worcestershire Association of Governors  
Teacher Associations and Trade Unions

Date: 26<sup>th</sup> July 2011  
Our ref: AMcH/Funding

Dear Colleague,

**DEPARTMENT FOR EDUCATION (DFE) NATIONAL SCHOOL FUNDING**  
**'A CONSULTATION ON SCHOOL FUNDING REFORM: PROPOSALS FOR A**  
**FAIRER SYSTEM'.**

On 19<sup>th</sup> July 2011, the DfE issued a further consultation document on the future of school funding entitled 'A Consultation on School Funding Reform: Proposals for a Fairer System'.

The documents and response form are available on the following link: -

<http://www.education.gov.uk/consultations/index.cfm>

A summary of the key issues is appended to this letter.

It is a significant and technically detailed consultation. It contains 54 pages plus Annexes and a consultation document requesting responses to 48 questions. The consultation period is 12 weeks and closes on 11<sup>th</sup> October 2011. Following this the DfE will programme further work in the Autumn 2011 and Spring 2012.

The documents and response form have also been put onto EduLink under: -

<https://www.edulink.networcs.net/sites/LeadManage/consult/default.aspx>

These issues will be considered by the Worcestershire Schools Forum (WSF) in the Autumn Term and if you want any issues to be included within the consultation response then please let me know. Also, given the extremely important issues raised then it is wholly appropriate that you may wish to consider making an organisation or individual response.

Yours sincerely



**Andy McHale**  
Service Manager  
Funding and Business Development

**KEY ISSUES IN THE DfE DOCUMENT**  
**'A CONSULTATION ON SCHOOL FUNDING REFORM: PROPOSALS FOR A FAIRER SYSTEM'.**

1. This consultation was launched by the DfE on 19<sup>th</sup> July 2011 with replies requested by 11<sup>th</sup> October 2011 (12 weeks). Following this period the DfE will programme further work in the Autumn 2011 and Spring 2012.

2. It is a significant and technically detailed consultation. It contains 54 pages plus Annexes and a consultation document requesting responses to 48 questions. The key issues are detailed below: -

**(a) Overarching Principles**

- The DfE propose to introduce a new DSG formula which will provide funding to LA's, maintained schools and Academies on a fair and transparent basis.
- The DfE will ensure the new school funding system: -
  - Supports the needs of pupils.
  - Is clear and transparent.
  - Enables maintained schools and Academies, sponsors and Free School proposers to make informed decisions about their provision.
  - Enables schools and Academies to be funded on a broadly comparable basis.
- The new system will also enable local circumstances to be taken into account in the setting of maintained schools' and Academies' budgets. There will be a role for LA's and Schools Forums, including Academy representatives, in managing local pressures and priorities.
- In terms of Schools Forums, the DfE are also considering how they should improve their role, so that they are more representative of all types of provision and that they have greater powers to challenge proposals if they think they are unfair.
- These reforms will require funding to be moved between schools and areas, and will take time to have effect as ensuring stability in school funding remains a key objective.
- A further aim is to develop a formula that helps schools to meet the needs of pupils by ensuring that additional resource is targeted towards pupils who have additional needs e.g. for children from deprived backgrounds.

## **(b) Proposed Timescales and Transition**

- The DfE want to ensure there is adequate time for detailed consultation on the new system and time for maintained schools, academies, and LA's to plan for the changes. To support this the plan is to: -
  - Continue with the current system for schools in 2012-13.
  - Consult on the right time to introduce the new system. The thinking being to either plan to implement from 2013/14 or wait until the next spending review in 2015/16.
  - Provide more detailed proposals on the new system following this consultation.
  - Consult further through a “shadow settlement” in 2012-13 (Spring 2012) which will show potential allocations resulting from the reforms.
- There will be transitional arrangements from the outset to support this to ensure that the reforms are introduced at an appropriate speed that is manageable for all schools.
- These transitional arrangements will limit the year on year change to schools' budgets so that there is stability in budgets while the reforms are introduced.

## **(c) Funding Blocks for the DSG**

- The DfE contend there is a lack of clarity in the current DSG model.
- There will be three main blocks of funding for LA's in the proposed revised DSG model: -
  - Schools – delegated budgets of schools for Reception to Year 11 including low level SEN and some current centrally retained services for school pupils e.g. insurance, school specific contingencies, etc.
  - High Needs Pupils (HNP) – those in mainstream and special schools and academies as well as Alternative Provision (AP) and SEN support services.
  - Early Years (EY) – free entitlement to EY education for 3 and 4 year olds and current centrally retained EY services.
- There will also be a small fourth block for non-delegated items within the Schools Budget – including co-ordination of admissions, servicing schools forums, carbon reduction commitment, etc.
- The DfE will set out what each block is meant to fund by setting out the responsibilities of maintained schools, academies and the LA.
- The DfE will continue to ring fence the whole of the grant so it is spent on functions for which it is meant.
- However, the individual blocks will not be ring fenced with the DfE allowing LA's to move funding between these Schools Budget blocks to ensure that they are able to meet local pressures. There will continue to be local

checks, through the Schools Forum, such as the Central Expenditure Limit (CEL) and the Minimum Funding Guarantee (MFG) as now.

- In the schools block the assumption is all the centrally retained elements will be delegated but there can be consideration and agreement locally for central retention.
- On this basis central DSG services will be delegated to academies so negating the need for a schools budget LACSEG.
- The DfE will set out support for SEN that should be funded from schools delegated budgets and any threshold for funding from the HNP block.
- In addition there will continue to be funding provided through the DCLG Formula Grant, or its successor as part of the business rates retention scheme to fund services currently in the LA budget.
- This will distinguish the services that the LA has to continue to provide for all schools including academies and those that the academies receive Local Authority Central Spend Equivalent Grant (LACSEG).
- Over time the DfE will move to a formulaic approach for each block. The start point will be the budgets of each LA in 2012/13.

#### **(d) National DSG Formula Make Up**

- If introduced, the new national formula for the school block will include: -
  - A basic amount per pupil – reflecting age but not likely to be on an Activity Led Funding (ALF) approach, as the DfE contend this makes a national assumption on the cost of activities.
  - Additional per pupil funding for deprivation – likely to be Free School Meals (FSM).
  - Additional funding to protect small primary schools – for example a fixed lump sum or sparsity measure.
  - An adjustment for areas with higher labour costs – a general labour market approach, a specific cost approach or a combination of the two.
- The DfE are also consulting on including additional funding for pupils who have English as an Additional Language (EAL) and sometimes need additional support to help them to achieve.
- The DfE will use one of the following to calculate the formula in order to correct the historic disadvantages experienced by some LA and schools: -
  - A school level formula based on the schools within the area and the pupils within those schools – this would require the calculation of a notional budget for every school using a national formula and give LA's the total local school budget for all schools in their area.
  - A LA level formula based solely on the pupils within the area – this would not require a budget for each school just one for the local area.

- If introduced, the HNP block will be based upon the pupils' resident in each LA reflecting the LA's responsibility for securing provision for those pupils.
- On the HNP, much will be managed directly by maintained schools and academies as part of their delegated budgets. It is also intended that Pupil Referral Units (PRU's) should also receive delegated budgets subject to the passage of the Education Bill. There may also be transfers of this AP to schools.
- If introduced, the EY block will be based upon the children receiving the free entitlement for EY currently for 3 and 4 year olds.
- These factors will be used in the formula to determine the level of resource for each LA.

#### **(e) Local Schools Funding Formula**

- The DfE are not proposing to introduce a national formula for individual schools with no local flexibility. They recognise that there are likely to be specific needs and school specific factors that need to be met which may not be possible to accommodate in any national formula.
- However, the DfE contend the current list of allowable formula factors is too long and needs to be rationalised i.e. formula simplification to create national consistency and local simplicity.
- The DfE will take steps to simplify the local formula so that whilst there remains local flexibility in order to deal with particular needs and priorities, so there is also more consistency between areas. This scrutiny will ensure compliance and require LA's to complete a proforma on their local formula for review by the DfE.
- LA's and Schools Forums will need to agree a formula to distribute funding locally between schools in order to meet local priorities and needs.
- This formula could also be used to calculate the budgets of Academies in the area. Academies will be represented on the Schools Forum to ensure decisions take their needs into account.
- The DfE are proposing that LA's to use the core components of the national formula (see (d) above) plus a limited number of additional local factors, potentially with limiting how much can be allocated through them, such as: -
  - Basic entitlement per pupil currently Age Weighted Pupil Unit (AWPU).
  - Funding for additional educational needs e.g. deprivation, SEN, EAL.
  - Rates.
  - Exceptional Site Factors e.g. split site, PFI, rent.
  - Lump Sums.
- There is some support for some local flexibility in the system, but with that flexibility being limited in some way. The preferred option is to restrict the

number and scale of additional local factors that can be used and potentially give Schools Forums more challenge powers.

- The DfE contend this will ensure that all formulae are built on a comparable basis and can be understood easily by maintained schools, academies and others.
- LA's can use their own primary and secondary differential ratios but they will have to be within a set range of national averages.
- There is also consideration of changing the way that academies' budgets are calculated either by making the calculation of these by the Education Funding Agency (EFA) easier or enable LA's to calculate Academies budgets for the EFA. The current system lagged replication is seen as extremely bureaucratic.
- The DfE will maintain the practice that academies are funded at the same level as other local maintained schools but they want to ensure that academies' budgets are calculated more transparently.
- The document also considers how Free Schools, University Technology Colleges (UTC's), currently funded through a national model, and Studio Schools should be funded in the interim.

#### **(f) High Needs Pupils (HNP)**

- For the funding of HNP (children with high needs SEN and those in Alternative Provision (AP)): -
  - LA's will continue to be responsible for funding.
  - The DfE will provide LA's with funding to carry out these functions, which in the short term is likely to be historic spend potentially including post 16 and AP.
  - The DfE over time seek to use a formula to distribute this funding.
- The DfE are also considering: -
  - The introduction of a "base" level of funding per pupil with individualised "top up" including post 16.
  - Funding on the basis of places or pupils.
  - The impact of special academies and AP.

#### **(g) Funding for Early Years (EY)**

- For the funding of early education and childcare for 3 and 4 year olds in the Maintained and Private, Voluntary and Independent (PVI) sectors: -
  - LA's will also continue to be responsible for this by using a single funding formula.
  - The DfE are consulting on some proposals to simplify formulae and improve transparency e.g. moving the ability for supplements, a single provider rate, changes to disadvantage support, etc.

- The DfE are also consulting on whether, over time, there should be a move to a nationally determined formula to distribute this funding.

**(h) Pupil Premium (PP)**

- In order to ensure the continued additionality and transparency of the PP the DfE will keep it separate from the formula for the duration of this Spending Review period.
- This will ensure that whatever other changes are made to the underlying funding system, schools with deprived pupils will still receive the PP in full in addition.
- The DfE are also consulting on how to distribute the PP from 2012-13 with the intention to : -
  - Increase the amount available per pupil.
  - Widen the scope on the number of pupils that attract the premium by considering extending the eligibility for the PP to those pupils who have previously been eligible for Free School Meals (FSM) in the last 3 or 6 years.
- There is also to be discussion on whether to retain the current national rate or recognise area differences.

Andy McHale  
Service Manager Funding and Business Development  
Directorate of Children's Services  
Worcestershire County Council  
July 2011