

SCHOOLS FORUM GUIDANCE NOTE 2 – BRINGING THE TEACHERS' PAY GRANT INTO SCHOOL BUDGETS

Overview

1. Up until 2005-06, teachers' performance pay has been funded through a specific grant. In broad terms, the grant allocation for each authority was based on the numbers of teachers above the threshold, and their position on the Upper Pay Spine. The grant was a separate funding stream to schools' main delegated budgets.
2. From 2006-07, the grant will be distributed to local authorities as part of their allocations of Dedicated Schools Grant, which they will in turn use to fund their Schools Budget, and their schools' delegated budgets.
3. The current distribution of Teachers' Pay Grant depends mainly on teacher numbers, whereas local authority funding formulae for schools depend mainly on pupil numbers. The transfer of the grant will need to be carefully managed, to ensure that it does not create winners and losers and put at risk school budget stability:
 - a. if a school has a lower than average proportion of teachers on the upper pay spine, and receives a lower than average share of the grant, it would benefit if the grant were simply distributed through an authority's pupil led funding formula; but
 - b. if a school has a higher than average proportion of teachers on the upper pay spine, and receives a higher than average share of the grant, it would lose out if the grant were simply distributed through an authority's pupil led funding formula.
4. The Department believes that the long term position should be that all resources in an authority's Schools Budget should be distributed through the authority's funding formula. That would reflect the underlying relative need of schools in the authority, rather than the current basis of distribution of Teachers' Pay Grant, which reflects decisions taken by schools about whether their teachers should progress to the upper pay spine, and how fast they should make move up it.
5. However, there is a need to manage over time the transition of this funding stream from specific grant to schools' delegated budget in a way that does not create winners and losers as described above. The analysis carried out by the Department, and set out in detail in an annex to this note, suggests that there will be a wide diversity to the situations in which authorities find themselves. As a result, this is an issue which is being left to local discretion, rather than central prescription.
6. This note therefore discusses a number of strategies for the consideration of local authorities and their Schools Forums to manage this process:

- a. adding the funding for Teachers' Pay Grant to the amount to be distributed through an authority's formula, and allowing the MFG to smooth out with the resulting change in distribution between schools;
 - b. in the short term, continuing to distribute TPG on the basis of the number of post-threshold teachers, thus minimising any turbulence, which could be coupled with -
 - c. reducing over time the amount of funding distributed on the basis of the number of post-threshold teachers, while increasing the amount of funding distributed through the formula.
7. If authorities and their Schools Forums decide on options (b) or (c) they will need to decide whether to route the funding through a factor in their formula, or whether to hold the funding centrally, and devolve it to schools.

Background

8. For 2005-06 teachers' performance pay is funded via a Specific Formula Grant of around £900m, provided separately to the rest of schools' delegated budgets. The grant allocation for each local authority was based on:
- a. actual threshold expenditure levels;
 - b. the previous year's performance related pay (PRP) funding levels for both classroom teachers and leadership group (including agreed funding for upper pay scale 3); and
 - c. additional provision for new performance points awarded in schools.
9. The creation of the Dedicated Schools Grant is the right moment to bring an end to the payment of separate grants for elements of teachers' pay. In the future, decisions on all of teachers' pay will be made by schools with reference to their overall funding envelope, as determined through their local authority's funding formula.
10. However, the current distribution of teachers' pay grant will be very different to a formulaic distribution to local authorities and their schools based largely on pupil numbers. The transfer will therefore need to be managed carefully to ensure that school budgets remain stable. This note therefore sets out how the Department will manage this process in the distribution of Dedicated Schools Grant to local authorities, and suggests some strategies for consideration by Schools Forums and their local authorities, to manage the mainstreaming of the grant into schools' budgets. To assist Schools Forums in their consideration of this issue, this note also discusses the results of some analysis of Teachers' Pay Grant at school level carried out by the Department at Appendix A.

Dedicated Schools Grant Distribution

11. The baseline for local authorities' allocations of Dedicated Schools Grant for 2006-07 will be their Schools Budget for 2005-06, adjusted for a number of transfers. The determination of each authority's baseline will include their full allocation of Teachers' Pay Grant for 2005-06: that will ensure that every authority has at least the current level of resources for Teachers' Pay Grant in its Dedicated Schools Grant allocation for 2006-07, and receives an increase to cover inflation on top of this.

Distribution to Schools

12. The Department believes that the default position should be for authorities to distribute the total of their DSG resources (including funding for Teachers' Pay) through their local formula. This is certainly the long-term direction which we should take, since funding should generally be based on underlying need, rather than decisions made by the school.¹

13. However, in the short term this would produce significant winners and losers at school level. The explanatory note issued to local authorities on 21st July said that Ministers had decided that this was an area which should be left to local discretion. The note also suggested that there were three main options which local authorities could consider:

- a. Simply allocating the funding through the formula. The analysis here suggests that some schools could lose significantly and therefore if this approach was taken the pay grants would need to be added to the baseline for the purpose of the minimum funding guarantee, and the school funding regulations require this. Authorities would also want to examine the distribution of pay grants between their schools to see if the existing formula (for example balance between primary and secondary AWPU's, salary protection factors, small school factors) needs adapting to minimise the impact of the transfer.
- b. Identifying the teachers' pay grant funding separately and distributing on the basis of the number of post-threshold teachers. This would minimise turbulence but perpetuate the current approach of funding on decisions taken by schools, not underlying need. It may however be suitable as an interim measure leading to:
- c. A variation on b could be for authorities to slowly reduce the amount of money targeted on post-threshold teachers and increase the amount in the formula.

¹ Many local authority formulae include factors relating to salary safeguarding – so that for example small schools may receive additional resources to cover the cost of paying their staff where the formula would not otherwise deliver enough. Any strategy for mainstreaming Teachers' Pay Grant will need to ensure that such schools continue to receive sufficient resources to pay their staff.

There are two ways in which options (b) and (c) could be implemented: either through the inclusion of a factor in an authority's formula, in which case the funding flows through the ISB; or through holding the funding centrally, and devolving it to schools outside the ISB.

Analysis of Redistribution in a Sample of Local Authorities

14. There are a number of themes in the analysis in Appendix A which provide important context to considering how the transfer of the pay grants could be handled at local authority level.

- a. The primary schools sector generally tends to gain when Teachers' Pay Grant is added to the ISB and fed through the local authority formula. That is mainly because primary schools tend to have a lower proportion of teachers on the Upper Pay Spine.
- b. There is significant variation between schools, and significant variation between authorities in the extent to which funding is distributed between schools.
- c. Very small schools fare less well – that is possibly because they are predominantly in rural areas and generally have an older staff profile with more teachers on the upper pay spine than other primary schools.
- d. The minimum funding guarantee will mitigate the turbulence caused by adding the Teachers' Pay Grant to the ISB – but the number of schools on the MFG will increase, as will the overall total of MFG allocations.

Interaction with MFG

15. The above conclusions confirm that local authorities will need to have flexibility at local level over how they deal with this issue, as implied by the 21st July announcement. The regulations governing the MFG methodology provide for two options:

- a. retaining the funding for Teachers' Pay Grant centrally, with the consent of the Schools Forum, so that progress towards a different formula is not affected by the MFG, but can be phased in a way agreed by the local authority and the Schools Forum; or
- b. adding Teachers' Pay Grant to the ISB, with an automatic baseline adjustment to each school's adjusted budget share – the starting point for the MFG methodology.

16. Option (b) allows for either of the two methods set out in paragraph 8 above: (i) the funding could simply be distributed through AWPU's and other existing formula factors; or (ii) it could be distributed through a new formula factor which starts from the current distribution of the grant, and gradually moves to a new distribution. The first method is likely to increase the level of

MFG allocations; whereas the second allows for the phased approach to the transition, which would not increase the amount of MFG funding. In distributional terms, option b(ii) could be the same as option (a) – but since the funding is routed through the ISB, it would not act to increase the level of centrally held expenditure.

Schools Forum Role

17. In considering this issue Schools Forums ought to have available to them the following information and ask the associated questions.

- The current distribution of Teachers' Pay Grant between schools in a local authority.
 - Does this follow the national pattern in which secondary schools have a greater proportion of teachers on the upper pay spine?
 - Are there any other patterns, such as larger proportions of teachers in rural schools?
- The pattern of winners and losers that would result if that funding were simply routed through the AWPU.
 - To what extent will the MFG pick up those gains and losses?
- Are there formula adjustments that the authority can make that will, to an extent, offset the redistribution caused by mainstreaming of Teachers' Pay Grant?

Further Information

18. The Schools Forums guide on the MFG contains more detail on the detailed operation of the guarantee and how it can be modified.

Appendix A

Analysis of Teachers' Pay Grant data from 13 Authorities

1. The department does not collect data on school level allocations of teachers' pay grants. But we have collected data on 2004-05 allocations from a range of authorities as part of a larger exercise to collect school level data on a range of direct grants, for modelling purposes to investigate the possible extent of winners and losers if the resources were simply put through the formula and to examine options to mitigate these. The authorities concerned were Lambeth, Bromley, Hounslow, Knowsley, Bolton, Sheffield, Hartlepool, Poole, Leicester, Reading, Devon, Lancashire and Surrey.

2. For each authority, we calculated what the distribution of the total funding for Teachers' Pay Grant would be if it was distributed according to AWPU values. This was then compared with the actual distribution for 2004-05, which allowed us to see what the scale of winners and losers at school level within each authority would be. Authorities may take other decisions than simply adding to the AWPU pro-rata, for example, they might adjust other formula factors, or change the AWPU relativities where there is a correlation with the pay grant distribution, but this analysis does allow us to see the scale of the potential problem, and what strategies might be effective to avoid turbulence.

3. Annex A appended shows for primary schools the range of distributional change for each authority in our sample. The vertical axis shows the change in the teachers' pay allocation expressed as a proportion of the 2004-05 total budget share (including the pay grant). Annex B shows the results for secondary schools for each authority in the sample.

4. There are several points to note from these graphs:

- a. Generally primary schools tend to receive a larger share of the grant when it is fed through the AWPU than they do currently. This is a reflection of the lower proportion of post-threshold teachers in primary schools. The table below shows the proportion of teachers on the upper pay scale.

Spine Point	Primary	Secondary
	%	%
Upper Scale 1	18.0	14.8
Upper Scale 2	30.4	41.7

The pattern of winners and losers will also reflect the differences in the ratio of the AWPU values within each authority. This suggests that authorities and forums may wish to consider whether the existing ratio of the AWPU values is still appropriate with the pay grants coming in.

- b. There is significant variation between schools. This will reflect both the proportion of teachers that are on the upper pay spine

and the pupil-teacher ratios in each school.

- c. There is significant variation in the extent of redistribution between authorities.

5. We have also analysed at the winners and losers by school size for primary schools, as shown in Annex C. Very small schools do slightly worse than other size schools: these are more likely to be in rural areas and may have a greater proportion of older staff who are more likely to be on the upper pay spine. Again local authorities will want to look at the local pattern to inform their decisions about how the money flows through the formula.

6. We have also considered how far the Minimum Funding Guarantee (MFG) would mitigate the impact of the transfer. This analysis starts from an estimate of the 2003-04 teachers' pay grant funding (the 2004-05 grant deflated) and added to the baseline used to calculate the MFG. We then recalculated the 2004-05 budget share with the teachers' pay grant funding allocated through the AWPU. Finally, we calculated the additional MFG which the transfer of the teachers' pay grants would necessitate: that allows us to look at changes in the winners and losers on the teachers pay' grant once the additional MFG is added in. Annexes D and E repeat Annexes A and B but add the additional MFG into the formulaically distributed teachers' pay grant. The difference between the two sets of graphs is caused by the additional MFG funding, which acts to counter the redistribution from transferring the pay grants.

7. These charts show that the MFG significantly reduces the turbulence from transferring the grants and that in many authorities, after the MFG, there are very few schools losing out from the change in pay grants. There are still some schools in some authorities that would lose slightly, and even whole authorities where the guarantee has no effect. This will be because even with the loss of funding from the grant, the school still has an increase in the overall budget share above the level of the guarantee. For example the pattern for Hartlepool primary schools between Annex A and Annex D has hardly changed because all schools still receive an increase above the guarantee.

8. This demonstrates that the guarantee can mitigate the impact of transferring the pay grants and therefore provide an automatic way of phasing in the transfer. It is important to note, however, that the proportion of secondary schools on the guarantee for the authorities in this sample increased from 24% to 38% and the amount of money required by the guarantee doubled. For primary schools, the proportion of schools on the guarantee stayed the same but again the amount of money required by the guarantee increased. This is not surprising as the guarantee is picking up additional turbulence.