

Appendix A

Review of DSG Distribution Formula: Terms of Reference

Introduction

1. Jim Knight's statement¹ to Parliament of 25 June 2007 set out the main decisions on the shape of the school funding system for the years 2008-11, after the consultation on school, early years and 14-16 funding that took place in the spring. It also announced a review of the formula used to distribute DSG to local authorities. This note sets out the Government's proposals for the review.

Aim and Objectives of the Review

2. The aim of the review is to consider the development of a single transparent formula for the distribution of DSG, which distributes resources in line with relative need, recognising the different costs of educating particular groups of pupils and providing education in different areas.

3. The review will also need to consider the interaction of DSG with other funding streams for schools and children's services from central Government to local authorities, and the changing role of schools and the importance of their working with other local services in aligning local activities and resources behind jointly agreed priorities.

4. The review team will need to have regard to the following developments in its work:

- a. the establishment of the Department for Children, Schools, and Families as the lead government department for all children's issues;
- b. the long term aim that per pupil funding for schools should match the level of support available to children at independent day schools;
- c. the future funding arrangements for schools and services for children and young adults up to the age of 19;
- d. as we move towards the target of 400 academies, the position in local authorities where all or the great majority of secondary schools are not maintained by the local authority;
- e. the developing local landscape – Children's Trust arrangements, and Local Area Agreements; and

¹ www.teachernet.gov.uk/schoolfunding2008to11/

- f. whether and how we should further increase the flexibility of local authorities to use the centrally retained part of their Schools Budget with funding from other local authority budgets to support the delivery of ECM outcomes, and the role of the schools forum in agreeing to such arrangements.
5. The detailed issues the review team will consider are:
- a. How the basic unit of funding per pupil in the system should be calculated: either top down as now; or through an activity or needs led analysis, paralleling and drawing on the work many authorities have done in this area.
 - b. Additional educational needs (AEN): what sorts of pupils are affected; what indicators are best used to distribute money for these pupils; whether in the context of the personalisation agenda it is possible to attach money more directly to deprived pupils, for example, as they move round the system; and whether the funding system can incentivise schools to improve pupil progression.
 - c. High cost pupils: reviewing the previous work on distribution of funding for these pupils (mainly low incidence SEN).
 - d. Area Costs: whether DSG should continue to use the ACA factors from the wider LG finance system, or whether we should derive a measure specific to schools, and if so how that should be calculated.
 - e. Sparsity: we will need to consider whether there is evidence that there should be a change before we have revised data from the 2011 census.
 - f. Pupil count for DSG, where the choice is between January and autumn. The latter would need all pupils to be counted during the autumn, and since there is a long lead time for changes to the various censuses, this issue is one of the first the review will need to consider.
 - g. Transition: any new formula will lead to distributional changes amongst authorities; partly because authorities' current DSG allocations reflect in part their 2005-06 spend, but also because of new data and shifting patterns of deprivation and area costs. There will be a need for robust transitional measures when the new formula is introduced.
 - h. Academies: how these should be funded as we move towards the target of 400 academies, with particular reference to the position of those local authorities where the great majority of secondary schools will be academies, where there will also be issues for the local formula.

- i. Early years: whether experience from the programme of change for 2008-11 results in implications for DSG distribution from 2011-12.
- j. 14-19 funding: how the system for 14-16 funding is working across the CSR period, the impact of the decision to route all 16-19 funding through local authorities, and the approach to funding as access to diplomas becomes an entitlement in 2013.
- k. Specific grants: what scope there is for further streamlining, and in particular whether SDG and SSG could be mainstreamed into DSG.
- l. The impact on revenue funding of capital projects, for example through prudential borrowing funded from DSG for spend to save projects and through the impact of PFI payments for facilities management and other services.

Working methods

6. The last review of the formula for funding schools, carried out from 2000 to 2002, was conducted in public: papers and minutes of the proceedings were published on the DfES website; and external groups were invited to present papers to the group.

7. Such an approach for this formula review will allow all stakeholders to play a part in the process of development and will encourage a greater sense of ownership of the final outcome of the review. We therefore propose to convene a formula review sub group, reporting to the School Funding Implementation Group (SFIG), whose permanent members will be drawn from the current membership of SFIG and its various technical groups, with additional members co-opted as necessary.

8. Stakeholders beyond the formula review sub group will be encouraged to submit papers to the group, as and when particular topics are under consideration, and to attend meetings of the group to present their papers and take part in the discussion of them.

9. The output of the group will be a report to SFIG, containing recommendations for the way forward, which will subsequently be put to Ministers.

Outline Timetable

10. We propose the following timetable for the review:

July 2007	Launch review
End October 2007	Deadline for comments on terms of reference
Nov-Dec 2007	DfES analyse responses

Jan 2008	Start review <ul style="list-style-type: none"> o Formula Review Group begins work o Launch website o Publish detailed timeline
Jan 08-Jun 09	Development phase
Jul-Sep 09	Develop consultation proposals
Oct 09 – Mar 10	Consult
Apr-Jun 2010	Build up to decisions
July 2010	Ministers announce broad decisions
Oct 2010	School funding settlement for 2011-12 onwards.

Next Steps

11. We would welcome comments on these terms of reference and the issues for the review. These should be submitted by Friday 2 November 2007 to schoolfunding.dsgformulareview@dcf.gov.uk. A summary of responses will be published in due course.

Department for Children, Schools and Families
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